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ABSTRACTS

Constitutional Frameworks and Democratic Consolidation

PARLIAMENTARIANISM VS. PRESIDENTIALISM

By ALFRED STEPAN and CINDY SKACH

A fundamental political-institutional question that has only recently received serious scholarly attention concerns the impact of different constitutional frameworks on democratic consolidation. Little systematic cross-regional evidence has been brought to bear on this question. This article reports the findings of the analysis of numerous different sources of data, all of which point in the direction of a much stronger correlation between democratic consolidation and the constitutional framework of pure parliamentarianism than between consolidation and pure presidentialism. The systematic analysis of these data leads the authors to conclude that parliamentarianism is a more supportive constitutional framework due to the following theoretically predictable and empirically observable tendencies: its greater propensity for governments to have majorities to implement their programs, its greater ability to rule in a multiparty setting, its lower propensity for executives to rule at the edge of the constitution and its greater facility in removing a chief executive if he or she does so, its lower susceptibility to a military coup, and its greater tendency to provide long party-government careers, which add loyalty and experience to political society. In contrast, the analytically separable propensities of presidentialism also form a highly interactive system, but they work to impede democratic consolidation by reducing politicians' degrees of freedom.

West European Labor in Transition

SWEDEN AND GERMANY COMPARED

By KATHLEEN THELEN

This article analyzes conflicts in the 1980s over the decentralization of bargaining between labor and capital in Sweden and Germany. The analysis highlights the role of institutional arrangements, some of them previously "dormant" politically, that mediated common pressures to enhance plant-level flexibility. Whereas the drive for plant flexibility in Sweden contributed to the demise of traditional bargaining arrangements, similar pressures in Germany were more successfully accommodated within its "dual" system. In both cases, institutional links among different levels and arenas of bargaining shaped the strategic interactions of labor and capital in ways that either complicated (Sweden) or facilitated (Germany) the search for compromise within traditional bargaining institutions. While confirming the central role of institutions in explaining cross-national variation in outcomes, the analysis also adds a dynamic element to institutional analysis, highlighting how changing substantive interests of political actors interact with preexisting institutions to produce distinctive patterns of stability and change.

The Obsolescence of Capital Controls?

ECONOMIC MANAGEMENT IN AN AGE OF GLOBAL MARKETS

By JOHN B. GOODMAN and LOUIS W. PAULY

Between the late 1970s and the early 1990s, after decades of trying to limit short-term international capital movements, advanced industrial states moved decisively in the direction of decontrol. What has driven this remarkable policy convergence? The answer lies not in ideological change or shifts in relative political power, but in the prior development of international financial markets and in the increasing globalization of business. In a policy environment fundamentally reshaped by these factors, financial institutions and multinational firms were able to threaten or implement strategies of evasion and exit. Thus, the usefulness of controls declined as their effective costs rose sharply. In this light, the cases of Japan, Germany, Italy, and France are examined. The analysis points to the tightening link between short-term capital movements and foreign direct investment, issues that have long been treated as conceptually distinct. It also underlines the intricate connection between national

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policies governing capital movements and those aimed at managing international financial markets.

Irrational Workers

THE MORAL ECONOMY OF LABOR PROTEST IN EGYPT

By MARSHA PRIPSTEIN POSUSNEY

After comparing the predictions of Marxist, moral economy, and rational-choice theories concerning collective actions by workers in Egypt in the period since the 1952 Free Officers coup, this article concludes that a moral economy perspective is best able to explain the nature and frequency of these protests. The supporting evidence is the correlation between labor protest and violations of workers' feelings of entitlement, as manifest in declining real wages or disruptions to established patterns of wage differentials. The targeting of state institutions, combined with the fact that workers have eschewed actual production stoppages in favor of symbolic protests, indicates a view of reciprocal rights and obligations between themselves and the state. The latter reinforces the moral economy by combining significant concessions with its repressive response to labor protests. Marxism proves unable to explain the largely defensive and reactive nature of labor protest, while rational-choice theory is reduced to efforts to quantify workers' reactions to this repression.

Democratic Innovation

SOUTH AFRICA IN COMPARATIVE CONTEXT

By IAN SHAPIRO

This review essay of four recent books on democratic transitions is written from the standpoint of contemporary South African politics. Each of the books takes the Schumpetarian model of democratic politics for granted, and in the course of evaluating them the author explores the advantages and limitations of that model for thinking about the prospects for democracy in South Africa. He concludes that the Schumpeterian model diverts attention from questions that should concern promoters of democracy. The most important such questions deal with the internal structure of political parties, public organizations, and civil institutions.

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CONSTITUTIONAL FRAMEWORKS AND DEMOCRATIC CONSOLIDATION

Parliamentarianism versus Presidentialism

By ALFRED STEPAN and CINDY SKACH*

Introduction

THE struggle to consolidate the new democracies—especially those in Eastern Europe, Latin America, and Asia—has given rise to a wide-ranging debate about the hard choices concerning economic restructuring, economic institutions, and economic markets.[1] A similar debate has focused on democratic *political* institutions and *political* markets. This literature has produced provocative hypotheses about the effects of institutions on democracy. It forms part of the "new institutionalism" literature in comparative politics that holds as a premise that "political democracy depends not only on economic and social conditions but also on the design of political institutions."[2]

* This article grew out of an exchange at a December 1990 meeting in Budapest of the East-South System Transformations Project, which brought together specialists on Eastern Europe, Southern Europe, and South America. When we were discussing topics for future research and dividing up our collective work, Adam Przeworski lamented that although there were assertions in the literature about the probable impact of different types of institutional arrangements on democratic consolidation, there were no systematic data available. In his notes about the Budapest meeting, Przeworski reiterated that "we seem to know surprisingly little about the effects of the particular institutional arrangements for their effectiveness and their durability. Indeed, the very question whether institutions matter is wide open." See Przeworski, "Notes after the Budapest Meeting" (Chicago: University of Chicago, January 11, 1991), 10. We acknowledge the careful reading and/or comments of Adam Przeworski, Jack Snyder, Douglas Rae, Juan Linz, Mike Alvarez, Martin Gargiulo, Lisa Anderson, Anthony Marx, Gregory Gause, Joel Hellman, and Scott Mainwaring. The normal caveats apply.

[1] See, e.g., Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992); Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991); and Christopher Clague and Gordon C. Rausser, eds., *The Emergence of Market Economies in Eastern Europe* (Cambridge, England: Blackwell Press, 1992).

[2] James G. March and Johan P. Olsen, "The New Institutionalism: Organizational Factors in Political Life," *American Political Science Review* 78 (September 1984), 738. For a pioneering early work exemplifying this approach, see Maurice Duverger, *Political Parties* (New

World Politics 46 (October 1993), 1–22

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One fundamental political-institutional question that has only recently received serious scholarly attention concerns the impact of different constitutional frameworks on democratic consolidation.[3] Although the topic has been increasingly debated and discussed, little systematic cross-regional evidence has been brought to bear on it. This is unfortunate, because constitutions are essentially "institutional frameworks" that in functioning democracies provide the basic decision rules and incentive systems concerning government formation, the conditions under which governments can continue to rule, and the conditions by which they can be terminated democratically. More than simply one of the many dimensions of a democratic system,[4] constitutions create much of the overall system of incentives and organizations within which the other institutions and dimensions found in the many types of democracy are structured and processed.

Study shows that the range of existing constitutional frameworks in

York: Wiley, 1954). Other important works that explore the causal relationship between institutions such as electoral systems and political parties, and democratic stability include Giovanni Sartori, *Parties and Party Systems: A Framework for Analysis* (Cambridge: Cambridge University Press, 1976); Douglas Rae, *The Political Consequences of Electoral Laws* (New Haven: Yale University Press, 1967); William H. Riker, *The Theory of Political Coalitions* (New Haven: Yale University Press, 1962); Bernard Grofman and Arend Lijphart, eds., *Electoral Laws and Their Political Consequences* (New York: Agathon, 1986); Rein Taagepera and Matthew Soberg Shugart, *Seats and Votes* (New Haven: Yale University Press, 1989); and Matthew Soberg Shugart and John Carey, *Presidents and Assemblies* (Cambridge: Cambridge University Press, 1992). An important work in the neo-institutionalist literature that focuses on legislatures and structure-induced equilibrium is Kenneth Shepsle, "Institutional Equilibrium and Equilibrium Institutions," in Herbert F. Weisberg, ed., *Political Science: The Science of Politics* (New York: Agathon, 1986). See also Mathew D. McCubbins and Terry Sullivan, eds., *Congress: Structure and Policy* (Cambridge: Cambridge University Press, 1987).

[3] There is a growing literature on this question. Much of it is brought together in Juan J. Linz and Arturo Valenzuela, eds., *Presidentialism and Parliamentarianism: Does It Make a Difference?* (Baltimore: Johns Hopkins University Press, forthcoming). However, no article in this valuable collection attempts to gather systematic global quantitative data to address directly the question raised in the title of the book and by Przeworski. Linz first appeared in print on this subject in a brief "Excursus on Presidential and Parliamentary Democracy," in Linz and Alfred Stepan, eds., *The Breakdown of Democratic Regimes* (Baltimore: Johns Hopkins University Press, 1978). His much-cited seminal "underground" paper with the same title as his forthcoming book was first presented at the workshop on "Political Parties in the Southern Cone," Woodrow Wilson International Center, Washington, D.C., 1984; see also idem, "The Perils of Presidentialism," *Journal of Democracy* 1 (Winter 1990). See also Scott Mainwaring, "Presidentialism, Multiparty Systems, and Democracy: The Difficult Equation," *Kellogg Institute Working Paper*, no. 144 (Notre Dame, Ind.: University of Notre Dame, September 1990).

[4] We agree with Philippe C. Schmitter's argument that there are many types of democracies and that "consolidation includes a mix of institutions." See Schmitter, "The Consolidation of Democracy and the Choice of Institutions," *East-South System Transformations Working Paper*, no. 7 (Chicago: Department of Political Science, University of Chicago, September 1991), 7. See also Schmitter and Terry Karl, "What Democracy Is . . . and Is Not," *Journal of Democracy* (Summer 1991). The authors list eleven important dimensions that provide a matrix of potential combinations by which political systems can be differently democratic.

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the world's long-standing democracies is narrower than one would think.[5] With one exception (Switzerland), every existing democracy today is either presidential (as in the United States), parliamentary (as in most of Western Europe), or a semipresidential hybrid of the two (as in France and Portugal, where there is a directly elected president and a prime minister who must have a majority in the legislature).[6] In this essay we pay particular attention to contrasting what we call "pure parliamentarianism" with "pure presidentialism."[7] Each type has only two fundamental characteristics, and for our purposes of classification these characteristics are necessary and sufficient.

A pure parliamentary regime in a democracy is a system of mutual dependence:

1. The chief executive power must be supported by a majority in the legislature and can fall if it receives a vote of no confidence.
2. The executive power (normally in conjunction with the head of state) has the capacity to dissolve the legislature and call for elections.

A pure presidential regime in a democracy is a system of mutual independence:

[5] We realize that any effort to operationalize the concept of "democracy" so that it can be used for purposes of classification of all the countries of the world is inherently difficult. Fortunately there have been two independently designed efforts that attempt this task. One, by Michael Coppedge and Wolfgang Reinicke, attempted to operationalize the eight "institutional guarantees" that Robert Dahl argued were required for a polyarchy. The authors assigned values to 137 countries on a polyarchy scale, based on their assessment of political conditions as of mid-1985. The results are available in Coppedge and Reinicke, "A Measure of Polyarchy" (Paper presented at the Conference on Measuring Democracy, Hoover Institution, Stanford University, May 27–28, 1988); and in idem, "A Scale of Polyarchy," in Raymond D. Gastil, ed., *Freedom in the World: Political Rights and Civil Liberties, 1987–1988* (New York: Freedom House, 1990), 101–28. Robert A. Dahl's seminal discussion of the institutional guarantees needed for polyarchy is found in his *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971), 1–16.

The other effort to operationalize a scale of democracy is the annual Freedom House evaluation of virtually all the countries of the world. The advisory panel in recent years has included such scholars as Seymour Martin Lipset, Giovanni Sartori, and Lucian W. Pye. The value assigned for each year 1973 to 1987 can be found in the above-cited Gastil, 54–65. In this essay, we will call a country a "continuous democracy" if it has received no higher than a scale score of 3 on the Coppedge-Reinicke Polyarchy Scale for 1985 and no higher than a 2.5 averaged score of the ratings for "political rights" and "civil liberties" on the Gastil Democracy Scale, for the 1980–89 period.

[6] On the defining characteristics of semipresidentialism, see the seminal article by Maurice Duverger, "A New Political System Model: Semi-Presidential Government," *European Journal of Political Research* 8 (June 1980). See also idem, *Echec au Roi* (Paris: Albin Michel, 1978); and idem, *Le monarchie républicaine* (Paris: R. Laffont, 1974).

[7] For a discussion of the semipresidential constitutional framework, its inherent problem of "executive dualism," and the exceptional circumstances that allowed France to manage these problems, see Alfred Stepan and Ezra N. Suleiman, "The French Fifth Republic: A Model for Import? Reflections on Poland and Brazil," in H. E. Chehabi and Alfred Stepan, eds., *Politics, Society and Democracy: Comparative Studies* (Boulder, Colo.: Westview Press, forthcoming).

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1. The legislative power has a fixed electoral mandate that is its own source of legitimacy.
2. The chief executive power has a fixed electoral mandate that is its own source of legitimacy.

These necessary and sufficient characteristics are more than classificatory. They are also the constraining conditions within which the vast majority of aspiring democracies must somehow attempt simultaneously to produce major socioeconomic changes and to strengthen democratic institutions.[8]

Pure parliamentarianism, as defined here, had been the norm in the democratic world following World War II.[9] However, so far, in the 1980s and 1990s, all the new aspirant democracies in Latin America and Asia (Korea and the Philippines) have chosen pure presidentialism. And to date, of the approximately twenty-five countries that now constitute Eastern Europe and the former Soviet Union, only three—Hungary, the new Czech Republic, and Slovakia—have chosen pure parliamentarianism.[10]

We question the wisdom of this virtual dismissal of the pure parliamentary model by most new democracies and believe that the hasty embrace of presidential models should be reconsidered. In this article we bring evidence in support of the theoretical argument that parliamentary democracies tend to increase the degrees of freedom that facilitate the momentous tasks of economic and social restructuring facing new democracies as they simultaneously attempt to consolidate their democratic institutions.

It is not our purpose in this article to weigh the benefits and the drawbacks of parliamentarianism and presidentialism. Our intention is to report and analyze numerous different sources of data, all of which point

[8] Alfred Stepan will develop this argument in greater detail in a book he is writing entitled *Democratic Capacities/Democratic Institutions*.

[9] For example, in Arend Lijphart's list of the twenty-one continuous democracies of the world since World War II, seventeen were pure parliamentary democracies, two were mixed, one was semipresidential, and only one, the United States, was pure presidential. See Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-one Countries* (New Haven: Yale University Press, 1984), 38.

[10] The norm is a directly elected president with very strong de jure and de facto prerogatives coexisting with a prime minister who needs the support of parliament. As of this writing (April 1993), only Hungary and the newly created Czech Republic and Slovakia had opted for the pure parliamentary constitutional framework. Despite having directly elected presidents, Slovenia, Estonia, and Bulgaria have strong parliamentary features. In Slovakia and Estonia presidents will now be selected by parliament. Bulgaria, however, has moved from an indirectly to a directly elected president. For political, legal, and sociological analyses of constitution making in East European transitions, see the quarterly publication *East European Constitutional Review*, which is part of the Center for the Study of Constitutionalism in Eastern Europe at the University of Chicago. The center was established in 1990 in partnership with the Central European University.

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in the direction of a much stronger correlation between democratic consolidation and pure parliamentarianism than between democratic consolidation and pure presidentialism. We believe our findings are sufficiently strong to warrant long-range studies that test the probabilistic propositions we indicate.[11]

Constitutional Frameworks: Constructing Relevant Data

We were able to construct a data set about party systems and consolidated democracies. Since we are interested in the lessons about party systems in long-standing consolidated democracies, we include the countries of the Organization of Economic Cooperation and Development (OECD). There were forty-three consolidated democracies in the world between 1979 and 1989.[12] Excluding the "mixed cases" of Switzerland and Finland, there were thirty-four parliamentary democracies, two semipresidential democracies, and only five pure presidential democracies.[13] We used the powerful yet relatively simple formula devised by Markku Laakso and Rein Taagepera to measure the "effective" number of political parties in the legislatures of these forty-one political systems.[14]

[11] Duration analysis would be particularly appropriate because it estimates the *conditional* probability of an event taking place (for example, of a democracy "dying," by undergoing military coup), given that the regime has survived for a given period of time as a democracy. This conditional probability is in turn parameterized as a function of exogenous explanatory variables (such as constitutional frameworks). The sign of an estimated coefficient then indicates the direction of the effect of the explanatory variable on the conditional probability of a democracy dying at a given time. Such models allow us to estimate whether democracies exhibit positive or negative "duration dependence": specifically, whether the probability of a democracy dying increases or decreases, respectively, with increases in the duration of the spell. Mike Alvarez, a Ph.D. candidate in political science at the University of Chicago, is creating the data and the appropriate statistical techniques and then implementing this duration analysis as part of his dissertation. Adam Przeworski, too, has embarked on such research. See also Nicholas M. Kiefer, "Economic Duration Data and Hazard Functions," *Journal of Economic Literature* 26 (June 1988).

[12] We consider a country to be a "consolidated democracy" if it has received no higher than a scale score of 3 on the Coppedge-Reinicke Polyarchy Scale for 1985 *and* no higher than a 2.5 average of the ratings for "political rights" and "civil liberties" on the Gastil Democracy Scale. Countries that met these joint criteria for every year of the 1979–89 decade are considered "continuous consolidated democracies." See fn. 18 herein.

[13] Duverger calls Finland semipresidential because the president has significant de jure and de facto powers; it should be pointed out, however, that from 1925 to 1988 the Finnish president was not so much directly elected as indirectly chosen by party blocs. The candidates normally did not campaign in the country, and though parties put the names of their candidates on the ballot, the electoral college votes were not pledges and often entailed deliberations and multiple balloting, leading Shugart and Carey to conclude that the presidential election system in Finland from 1925 to 1988, "given its party-centered character . . . was not much different from election in parliament." See Shugart and Carey (fn. 2), 212–21, 226–28, quote at 221. We consider Finland to have been a "mixed" constitutional system until 1988.

[14] Laakso and Taagepera, " 'Effective' Number of Parties: A Measure with Application to West Europe," *Comparative Political Studies* 12 (April 1979). The formula takes into ac-

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Of the thirty-four parliamentary democracies, eleven had between three and seven effective political parties.[15] Both of the semipresidential democracies in this universe had between three and four effective political parties. However, no pure presidential democracy had more than 2.6 effective political parties. These data indicate that consolidated parliamentary and semipresidential democracies can be associated with a large number of parties in their legislatures, whereas consolidated presidential democracies are not associated with the type of multiparty coalitional behavior that facilitates democratic rule in contexts of numerous socioeconomic, ideological, and ethnic cleavages and of numerous parties in the legislature. The currently empty column in Table 1 of long-standing presidential democracies with "3.0 or more" effective legislative parties is probably one of the reasons why there are so few continuous presidential democracies.

The Finnish political scientist Tatu Vanhanen published an important study of democratic durability that incorporates the nuances in individual countries' socioeconomic structures. Hence, it provides another data set for testing our hypothesis regarding constitutional frameworks.[16]

Vanhanen constructed a political Index of Democratization (ID) based on (1) the total percentage of the vote received by all parties except the largest vote getter and (2) the total percentage of the population that votes. He has also constructed a socioeconomic Index of Power Resources (IPR) based on six variables: (1) degree of decentralization of nonagricultural economic resources, (2) percentage of total agricultural land owned as family farms, and percentage of population (3) in universities, (4) in cities, (5) that is literate, and (6) that is not employed in agriculture. His

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count each party's relative size in the legislature, as measured by the percentage of seats it holds. The "effective" number of parties is "the number of hypothetical equal-size parties that would have the same total effect on fractionalization of the system as have the actual parties of unequal size." The formula for calculating the effective number of parties (N) is

$$N = \frac{1}{\sum_{i=1}^{n} pi2}$$

where pi = the percentage of total seats held in the legislature by the i-th party.

For each country listed in Table 1, we determined the number of seats held in the lower or only house of the legislature at the time of each legislative election between 1979 and 1989. Then, the effective number of political parties (N) was calculated for each of these election years and multiplied by the number of years until the next legislative election.

[15] Austria, Ireland, and Iceland have directly elected presidents, but we do not classify them as semipresidential; we concur with Duverger that they are not de facto semipresidential since "political practice is parliamentary." See Duverger (fn. 6, 1980), 167.

[16] See Vanhanen, *The Process of Democratization: A Comparative Study of 147 States, 1980–1988* (New York: Crane Russak, 1990).

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major hypothesis is that all countries above his threshold level of 6.5 on his Index of Power Resources "should be democracies," and all countries below his minimum level, 3.5 index points, "should be non-democracies or semi-democracies." He has constructed his indexes for 147 countries for 1980 and 1988.

His hypothesis was broadly confirmed in that 73.6 percent of the countries that were above 6.5 in his IPR qualified as democracies as measured by his Index of Democracy. In his regression analysis with these indexes, Vanhanen found the correlation (r2) between the ID and IPR equal to .707 in 1980 and .709 in 1988. Approximately 76 percent of the 147 country cases tested by Vanhanen had small residuals and deviated from the regression line by less than one standard error of estimate.

However, thirty-six countries in 1980 and thirty-four in 1988 had negative or positive residuals larger than one standard error of estimate. These seventy large-residual cases indicate that about 24 percent of the variance in Vanhanen's regression analysis is unexplained. Vanhanen noted that "large positive residuals indicate that the level of democratization is considerably higher than expected on the basis of the average relationship between ID and IPR [we will call these cases 'democratic overachievers'], and large negative residuals indicate that it is lower than expected [we will call these 'democratic underachievers']." He then asks "how to explain these deviations that contradict my hypothesis? I have not found any general explanation for them."[17]

Vanhanen's unexplained variance—his democratic over- and underachievers—constitutes a data set with which to test our hypothesis regarding constitutional frameworks. Of the total seventy deviating cases in his 1980 and 1988 studies, fifty-nine occurred in constitutional frameworks we have called "pure parliamentary" or "pure presidential" (thirty-seven and twenty-two cases, respectively). When we analyze democratic underachievers in Vanhanen's set, we find that presidential systems had a democratic underachiever rate 3.4 times greater than did the parliamentary systems. Further, parliamentary systems in Vanhanen's set were 1.8 times more likely than presidential systems to be democratic overachievers. (See Table 2.)

Another set of data concerns both comparative capacity to be democratic survivors and vulnerability to military coups. Since we are concerned primarily with countries that are making some effort to construct democracies, we restrict our analysis to those countries in the world that qualified in the Gastil Political Rights Scale as democracies for at least

[17] Ibid., 84.

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TABLE 1

A LAAKSO/TAAGEPERA INDEX OF EFFECTIVE POLITICAL PARTIES IN THE LEGISLATURES OF CONTINUOUS DEMOCRACIES[a] (1979–89)

Parliamentary		*Semipresidential*		*Presidential*	
3.0 or More Parties	*Fewer Than 3.0 Parties*	*3.0 or More Parties*	*Fewer Than 3.0 Parties*	*3.0 or More Parties*	*Fewer Than 3.0 Parties*
	Kiribati[c]				
	Nauru[c]				
	Tuvalu[c]				
	Botswana 1.3				
	St. Vincent 1.4				
	Dominica 1.5				
	Jamaica 1.5				
	Bahamas 1.6				
	Trindidad and Tobago 1.6				
	Barbados 1.7				
	St. Lucia 1.7				U.S.A. 1.9
	New Zealand 2.0				
	Canada 2.0				
	UK 2.1				Colombia 2.1
	India 2.1				
	Greece 2.2				Dominican Republic 2.3
	Austria 2.4[b]				
	Australia 2.5				Costa Rica 2.3
	Solomon Islands 2.5				
	Mauritius 2.5				Venezuela 2.6
	Spain 2.7				
	Ireland 2.7[b]				
	Japan 2.9				

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West Germany 3.2
Norway 3.2
Sweden 3.4
Luxembourg 3.4
Israel 3.6
Netherlands 3.8
Italy 3.9
Papua New Guinea 4.0

Iceland 4.3[b]

Denmark 5.2

Belgium 7.0

France 3.2

Portugal 3.6

SOURCE: See fnn. 12, 14 for explanation of the Laakso/Taagepera Index formula, criteria for inclusion into this universe of continuous democracies, and data used to construct this table.

[a] Switzerland and Finland are "mixed" systems with 5.4 and 5.1 "effective" political parties, respectively. See fn. 13 for why we classify Finland, until 1988, as a mixed rather than semipresidential regime.

[b] See fn. 15 for why Duverger (and we) classify Austria, Ireland, and Iceland as parliamentary rather than presidential regimes.

[c] Traditionally in Kiribati, all candidates for the unicameral legislature—the Maneaba—have fought as independents. In 1985 various Maneaba members that were dissatisfied with government policies formed a Christian Democrat opposition grouping. The government grouping then "is generally known as the National Party, although it does not constitute a formal political party." It is more accurate to refer to Kiribati's "parties" as "pro" and "anti" assembly groupings, of which there are a total of two. See J. Denis and Ian Derbyshire, *Political Systems of the World* (Edinburgh: W. and R. Chambers, 1989), 724. This is also true in Tuvalu, where there are no formal political parties, and in Nauru, where there are loosely structured pro- and antigovernment groupings. See Arthur Banks, *Political Handbook of the World* (Binghamton: State University of New York, CSA, 1989), 422, 627.

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TABLE 2
SIGNIFICANT "OVER-" AND "UNDER-" DEMOCRATIC ACHIEVERS:[a]
COMPARISON OF PURE PARLIAMENTARY AND PURE PRESIDENTIAL SYSTEMS

	Total Countries	*Democratic Underachievers*	*Democratic Overachievers*
Pure parliamentary	37	6 (16.2%)	31 (83.8%)
Pure presidential	22	12 (54.6%)	10 (45.5%)

SOURCE: Vanhanen (fn. 16), 75–79, 94–97, presents data for his Index of Democratization and his Index of Power Resources. We determined whether the systems were parliamentary, presidential, or "other" using the references contained in Table 5, fn. 1. "Other" includes semipresidential, one-party, and ruling monarchy.

[a] Based on residuals in Vanhanen's regression analysis with his Index of Power Resources and his Democratic Index for 1980 and 1988.

one year between 1973 and 1989. Only 77 of the 168 countries in the world met this test. In an attempt to control for economic development as an intervening variable that might independently influence political stability, we eliminate from this section of our analysis the twenty-four OECD countries. This leaves a data set of the fifty-three non-OECD countries that experimented with democracy for at least one year between 1973 and 1989. Of these, twenty-eight countries were pure parliamentary, twenty-five were pure presidential, and surprisingly none were either semipresidential or mixed. Only five of the twenty-five presidential democracies (20 percent) were democratic for any ten consecutive years in the 1973–89 period; but seventeen of the twenty-eight pure parliamentary regimes (61 percent) were democratic for a consecutive ten-year span in the same period. Parliamentary democracies had a rate of survival more than three times higher than that of presidential democracies. Pure presidential democracies were also more than twice as likely as pure parliamentary democracies to experience a military coup. (See Tables 3 and 4.)

Another source of relevant data concerns the set of countries, ninety-three in all, that became independent between 1945 and 1979.[18] During the ten-year period between 1980 and 1989 only fifteen of the ninety-three merit possible classification as continuous democracies. Since we are interested in evolution toward and consolidation of democracy, we examine the regime form that these countries chose at independence. Forty-one countries functioned as parliamentary systems in their first

[18] We use the date of independence since it was usually within one year of independence that new constitutions were drafted and approved in these countries. We exclude from our analysis those countries that became independent after 1979 because we want to see which of these countries were then continuously democratic for the ten-year period 1980–89. This gives us a sample of time between World War II and 1979.

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TABLE 3
UNIVERSE OF THE 53 NON-OECD COUNTRIES THAT WERE DEMOCRATIC FOR AT LEAST ONE YEAR BETWEEN 1973 AND 1989 AND ALL THE COUNTRIES FROM THIS SET CONTINUOUSLY DEMOCRATIC FOR ANY TEN CONSECUTIVE YEARS IN THIS PERIOD

	Regime Type during Democracy		
	Pure Parliamentary	*Pure Presidential*	*Semipresidential or Mixed*
Total non-OECD countries democratic for at least one year during 1973–89	28	25	0
Number of countries from above set continuously democratic for ten consecutive years in this period	17	5	0
Democratic survival rate	61%	20%	NA

SOURCE: Criteria for inclusion in this universe of countries is based on the Gastil Democracy Scale and the Coppedge-Reinicke Polyarchy Scale (see fn. 5).

year of independence, thirty-six functioned as presidential systems, three functioned as semipresidential systems, and thirteen functioned as ruling monarchies. At this stage of our research, we are impressed by the fact that no matter what their initial constitutional form, not one of the fifty-two countries in the nonparliamentary categories evolved into a continuous democracy for the 1980–89 sample period, whereas fifteen of the forty-one systems (36 percent) that actually functioned as parliamentary systems in their first year of independence not only evolved into continuous democracies but were the only countries in the entire set to do so. (See Table 5.)

If the data in Table 5 were strictly numerical observations, the chances of this distribution occurring randomly would be less than one in one thousand. But we realize that the quantification of this qualitative data masks important realities, such as the fact that the classes catch some countries that were always ademocratic or even antidemocratic. We do not rule out the hypothesis that the more democratic countries chose parliamentary systems at independence. Also, the fact that many of the

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TABLE 4
PERCENTAGE OF THE 53 NON-OECD COUNTRIES THAT WERE DEMOCRATIC FOR AT LEAST ONE YEAR IN 1973–89 AND EXPERIENCED A MILITARY COUP[a] WHILE A DEMOCRACY

	Regime Type at Time of Coup		
	Pure Parlimentary	*Pure Presidential*	*Semipresidential or Mixed*
Total non-OECD countries democratic for at least one year during 1973–89	28	25	0
Number of countries from above set having experienced a military coup while a democracy	5	10	0
Military coup susceptibility rate	18%	40%	NA

SOURCE: Data for incidence of military coups is found in Arthur Banks, *Political Handbook of the World* (Binghamton: State University of New York, CSA Publishers, 1989); and Peter J. Taylor, *World Government* (Oxford: Oxford University Press, 1990). For regime type at time of coup, see sources cited in Table 5.

[a] We define a military coup as an unconstitutional removal of the executive by or with the aid of active-duty members of the domestic armed forces.

"democratic survivors" are island states and that all but two (Papua New Guinea and Nauru) are former British colonies should be taken into account.[19] We can control for the British colonial legacy, however, by isolating the fifty former British colonies from our original set of ninety-three. Of the thirty-four from this subset that began independence as parliamentary systems, thirteen (38 percent) evolved into continuous democracies for the 1980–89 period. Of the five former British colonies that began as presidential systems, not one evolved into a democracy for the

[19] Myron Weiner observes that "most of the smaller, newly independent democracies . . . are also former British colonies" and puts forth the hypothesis that "tutelary democracy under British colonialism appears to be a significant determinant of democracy in the Third World." See Weiner, "Empirical Democratic Theory," in Myron Weiner and Ergun Özbudun, eds., *Competitive Elections in Developing Countries* (Durham, N.C.: Duke University Press, 1987), esp. 18–23, quote at 19. This question is also addressed by Jorge Dominguez, "The Caribbean Question: Why Has Liberal Democracy (Surprisingly) Flourished?" in Dominguez, ed., *Democracy in the Caribbean: Political, Economic, and Social Perspectives* (Baltimore: Johns Hopkins University Press, 1993). Dominguez discusses how these Caribbean democracies have faced (and survived) severe economic crises. He attributes their democratic stability to the legacy of British institutions (including, but not limited to, the Westminster parliamentary model) and the prodemocratic disposition of the countries' leadership.

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1980–89 period.[20] Similarly, not one of the eleven former British colonies that began independence as ruling monarchies evolved into a continuous democracy for 1980–89. This suggests that factors other than British colonial heritage are related to the democratic evolution and durability in these countries. Moreover, the fifteen democratic survivors in our set survived despite challenges such as tribal riots, linguistic conflicts, economic depressions, and/or mutinies. They therefore constitute a set of countries for which the constitutional form may be crucial in explaining democratic durability.

The comparative tendency for different constitutional frameworks to produce legislative majorities can also be ascertained. This is relevant to our central question because majorities help to implement policy programs democratically. Examining evidence from our set of the non-OECD countries that were democratic for at least one year from 1973 to 1987, we note that in presidential democracies the executive's party enjoyed a legislative majority less than half of the time (48 percent of the democratic years). Parliamentary democracies, in sharp contrast, had majorities at least 83 percent of the time. (See Table 6.)

A final set of data concerns the duration and reappointment of cabinet ministers in presidential versus parliamentary frameworks. These data relate to the issue of continuity in governance. Some minimal degree of ministerial continuity and/or prior ministerial experience would seem to be helpful in enhancing the political capacity of the government of the day to negotiate with state bureaucracies and with national and transnational corporations. Using a number of recent studies, we have examined all ministerial appointments during the years of democratic rule in Western Europe, the United States, and Latin America between 1950 and 1980. Two major findings emerge. First, the "return ratio" of ministers (that is, the percentage who serve more than once in their careers) is almost three times higher in parliamentary democracies than in presidential democracies. Second, the average duration of a minister in any one appointment is almost twice as long in parliamentary democracies as it is in presidential democracies. Even when only those countries with more than twenty-five years of uninterrupted democracy are included in the sample, the findings still hold.[21] The conclusion is inescapable: min-

[20] The five former British colonies that chose presidential systems within one year of independence were Zambia, Cyprus, Malawi, Seychelles, and South Yemen.

[21] See Jean Blondel, *Government Ministers in the Contemporary World* (Beverly Hills, Calif.: Sage, 1985), esp. appendix II, 277–81; Mattei Dogan, *Pathways to Power: Selecting Rulers in Pluralist Democracies* (Boulder, Colo.: Westview Press, 1989); Waldino C. Suárez: "Argentina: Political Transition and Institutional Weakness in Comparative Perspective," in Enrique A. Baloyra, ed., *Comparing New Democracies: Transition and Consolidation in Mediter-*

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TABLE 5
REGIME TYPE OF THE 93 COUNTRIES OF THE WORLD THAT BECAME INDEPENDENT BETWEEN 1945 AND 1979 AND ALL THE CONTINUOUS DEMOCRACIES FROM THIS SET IN 1980–89

Parliamentary $N=41$		*Presidential* $N=36$		*Semipresidential* $N=3$	*Ruling Monarchy* $N=13$
Bahamas	Malta	Algeria	Madagascar	Lebanon	Bahrain
Bangladesh	Mauritius	Angola	Malawi	Senegal	Burundi
Barbados	Nauru	Benin	Mali	Zaire	Cambodia
Botswana	Nigeria	B. Faso	Mauritania		Jordan
Burma	Pakistan	Cameroon	Mozambique		Kuwait
Chad	Papua New Guinea	Cape Verde[b]	Niger		Lesotho
Dominica	St. Lucia	CAR	Philippines		Libya
Fiji	St. Vincent	Cyprus	Rwanda		Maldives
Gambia	Sierra Leone	Comoros	São Tomé		Morocco
Ghana[a]	Singapore	Congo	Seychelles		Oman
Grenada	Solomon Islands	Djibouti	Syria		Qatar
Guyana[a]	Somalia	Eq. Guinea	Togo		Tonga
India	Sri Lanka[a]	Gabon	Taiwan		UAE
Indonesia	Sudan	Guinea	Tunisia		
Israel	Suriname	Guinea Bissau	Vietnam (N)		
Jamaica	Swaziland	Ivory Coast	Vietnam (S)		
Kenya	Tanzania	Korea (S)	Yemen (S)		
Kiribati	Trinidad and Tobago	Korea (N)	Zambia		
Laos	Tuvalu				
Malaysia	Uganda				
	W. Samoa				

Continuous Democracies 1980–89			
N = 15/41	*N = 0/36*	*N = 0/3*	*N = 0/13*
Bahamas	Nauru		
Barbados	Papua New Guinea		
Botswana	St. Lucia		
Dominica	St. Vincent		
India	Solomon islands		
Israel	Trinidad and Tobago		
Jamaica	Tuvalu		
Kiribati			

SOURCES: See fn. 5 herein for definitions, the Coppedge-Reinicke Polyarchy Scale, and the Gastil Democracy Scale, upon which the table is based. Data for determining regime type at independence are found in Arthur Banks, *Political Handbook of the World* (Binghamton: State University of New York, CSA, 1989); Albert P. Blaustein and Gisbert H. Flanz, eds., *Constitutions of the Countries of the World*, vols. 1–19 (Dobbs Ferry, N.Y.: Oceana Publications, 1990); *Keesing's Contemporary Archives; Europa World Yearbook*; Peter J. Taylor, ed., *World Government* (Oxford: Oxford University Press, 1990); Ian Gorvin, ed., *Elections since 1945* (Chicago and London: St. James Press, 1989); and the country studies of the *Area Handbook Series* (Washington, D.C.: Federal Research Division, U.S. Library of Congress, various years).

Results of a Pearson's chi-squared test with this data allow us to reject the null hypothesis that the above distribution is random. The chances of observing this distribution randomly are less than one in one thousand.

[a] Sri Lanka was certainly and Ghana and Guyana appear to have been parliamentary democracies upon independence in 1948, 1957, and 1966, respectively. In 1960 Ghana changed to a presidential system, and in 1966 it experienced a military coup. The changes to a strong semipresidential system in Sri Lanka (1978) and a presidential system in Guyana (1980) were followed by increased restrictions on political rights and civil liberties. The last years that Sri Lanka and Guyana were classified as democracies on the Gastil Democracy Scale were 1982 and 1973, respectively. Ghana was classified as a democracy on this scale only in 1981–82.

[b] Although Cape Verde became independent in 1975, its first constitution was not promulgated until 1980. For the first five years of independence, Cape Verde appears to have functioned as a presidential system.

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TABLE 6
TOTAL YEARS OF PRESIDENTIAL AND PARLIAMENTARY DEMOCRACY OF NON-OECD COUNTRIES (1973–87) AND TOTAL YEARS IN WHICH THE EXECUTIVES PARTY HAD A LEGISLATIVE MAJORITY

	Total Years of Democracy[a]	*Total Democratic Years in Which Executive Had a Legislative Majority*	*Percentage of Democratic Years in Which Executive Had a Legislative Majority*[b]
Parliamentary years	208	173	83%
Presidential years	122	58	48%

SOURCE: Data concerning legislative seats and the executives' party affiliations were found in *Keesing's Contemporary Archives*; Ian Govin, *Elections since 1945: A Worldwide Reference Compendium* (Chicago: St. James Press, 1989); Thomas T. Mackie and Richard Rose, *The International Almanac of Electoral History* (London: Macmillan, 1991); *Chronicle of Parliamentary Elections and Developments* (Geneva: International Centre for Parliamentary Documentation, 1973–89).

[a] Includes all non-OECD countries that qualified as democracies for at least one year during the 1973–87 period, according to the Gastil Polyarchy Scale ten-year evaluation (fn. 5). Countries that became independent after 1979 are excluded.

[b] We consider an executive to have had a legislative majority each year in which his or her party held at least 50% of the legislative seats in the country's lower house for parliamentary frameworks and in both houses for presidential frameworks. Coalitional majorities formed after the elections for legislative seats in the parliamentary frameworks are not included here. Therefore, the percentage of parliamentary years in which prime ministers actually governed with legislative majorities is likely to be higher than 83%. The norm in Western Europe, for example, is the coalitional, not single-party, legislative majority. See Kaare Strom, *Minority Government and Majority Rule* (Cambridge: Cambridge University Press, 1990).

isters in presidential democracies have far less experience than their counterparts in parliamentary democracies.

THE CONTRASTING LOGICS OF PURE PARLIAMENTARIANISM AND PURE PRESIDENTIALISM

Let us step back from the data for a brief note about the type of statements that can be made about political institutions and democratic consolidation. The status of statements about the impact of institutions is not causally determinative (A causes B) but probabilistic (A tends to be associated with B). For example, Maurice Duverger's well-known observation about electoral systems is a probabilistic proposition: it holds that

ranean Europe and the Southern Cone (Boulder, Colo.: Westview Press, 1987); idem, "El gabinete en América Latina: Organización y cambio," *Contribuciones*, no. 1 (January–March 1985); and idem, "El Poder ejecutivo en América Latina: Su capacidad operativa bajo regímenes presidentialistas de gobierno," *Revista de Estudios Politicos*, no. 29 (September–October 1982).

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systems with single-member districts and where a simple plurality wins the seat tend to produce two-party systems, whereas electoral systems with multimember districts and proportional representation tend to produce multiparty systems.[22] The fact that Austria and Canada are exceptions to his proposition is less important than the fact that nineteen of the twenty-one cases of uninterrupted democracy in postwar industrialized countries conform to his proposition.[23]

A probabilistic proposition in politics is more than a statistical assertion. It entails the identification and explanation of the specific political processes that tend to produce the probabilistic results. And to establish even greater confidence in the proposition, one should examine case studies to explain whether and how the important hypothesized institutional characteristics actually came into play in individual cases.[24]

Whatever the constitutional framework, consolidating democracy outside of the industrialized core of the world is difficult and perilous. The quantitative evidence we have brought to bear on presidentialism and parliamentarianism would assume greater theoretical and political significance if a strong case could be made that the empirically evident propensities we have documented are the logical, indeed the predictable, result of the constitutional frameworks themselves. We believe that such a case can be made.

The essence of pure parliamentarianism is mutual dependence. From this defining condition a series of incentives and decision rules for creating and maintaining single-party or coalitional majorities, minimizing legislative impasses, inhibiting the executive from flouting the constitution, and discouraging political society's support for military coups predictably flows. The essence of pure presidentialism is mutual independence. From this defining (and confining) condition a series of incentives and decision rules for encouraging the emergence of minority governments, discouraging the formation of durable coalitions, maximizing legislative impasses, motivating executives to flout the constitution, and stimulating political society to call periodically for military coups pre-

[22] See Duverger (fn. 2).

[23] For a discussion of Duverger's proposition in the context of modern industrialized democracies, see Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-one Countries* (New Haven: Yale University Press, 1984), 156–59.

[24] There is a growing literature of case studies examining the influence of constitutional frameworks on stability and/or breakdown in developing countries. See, e.g., David M. Lipset, "Papua New Guinea: "The Melanesian Ethic and the Spirit of Capitalism, 1975–1986," in Larry Diamond, Juan J. Linz, and Seymour Martin Lipset, eds., *Democracy in Developing Countries: Asia* (Boulder, Colo.: Lynne Rienner, 1989), esp. 413. Lipset discusses how the constitutional framework came into play to prevent regime breakdown in Papua New Guinea. See also Dominguez (fn. 19).

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dictably flows. Presidents and legislatures are directly elected and have their own fixed mandates. This mutual independence creates the possibility of a political impasse between the chief executive and the legislative body for which there is no constitutionally available impasse-breaking device.

Here, then, is a paradox. Many new democracies select presidentialism because they believe it to be a strong form of executive government. Yet our data show that between 1973 and 1987 presidential democracies enjoyed legislative majorities less than half of the time. With this relatively low percentage of "supported time" and the fixed mandates of the presidential framework, executives and legislatures in these countries were "stuck" with one another, and executives were condemned to serve out their terms. How often did these executives find it necessary to govern by decree-law—at the edge of constitutionalism—in order to implement the economic restructuring and austerity plans they considered necessary for their development projects?

Our evidence shows that, in contrast to presidentialism, the executive's party in parliamentary democracies enjoyed a majority of seats in the legislature over 83 percent of the time period under study. For the remaining 17 percent of the years, parliamentary executives, motivated by the necessity to survive votes of confidence, formed coalition governments and party alliances in order to attract necessary support. When they were unable to do this, the absence of fixed mandates and the safety devices of the parliamentary institutional framework allowed for calling rapid new elections, the constitutional removal of unpopular, unsupported governments through the vote of no confidence, or simply the withdrawal from the government of a vital coalition partner.

Parliamentarianism entails mutual dependence. The prime minister and his or her government cannot survive without at least the passive support of a legislative majority. The inherent mechanisms of parliamentarianism involved in the mutual dependency relationship—the executive's right to dissolve parliament and the legislature's right to pass a vote of no confidence—are deadlock-breaking devices. These decision rules do not assure that any particular government will be efficient in formulating policies; nor do they assure government stability. But the decision mechanisms available in the parliamentary framework do provide constitutional means for removing deadlocked or inefficient governments (executives and parliaments). The danger that a government without a majority will rule by decree is sharply curtailed by the decision rule that allows the parliamentary majority (or the prime minister's coalition allies or even his or her own party) to call for government reformation.

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Why is it logical and predictable that military coups are much more likely in pure presidential constitutional frameworks than in pure parliamentary frameworks? Because, as we discussed above, parliamentary democracies have two decision rules that help resolve crises of the government before they become crises of the regime. First, a government cannot form unless it has acquired at least a "supported minority" in the legislature; second, a government that is perceived to have lost the confidence of the legislature can be voted out of office by the simple political vote of no confidence (or in Germany and Spain by a positive legislative vote for an alternative government). Presidentialism, in sharp contrast, systematically contributes to impasses and democratic breakdown. Because the president and the legislature have separate and fixed mandates, and because presidents more than half of the time find themselves frustrated in the exercise of their power due to their lack of a legislative majority, presidents may often be tempted to bypass the legislature and rule by decree-law. It is extremely difficult to remove even a president who has virtually no consensual support in the country or who is acting unconstitutionally; it usually requires a political-legal-criminal trial (impeachment), whose successful execution requires exceptional majorities.[25] Thus, even when the socioeconomic crises are identical in two countries, the country with the presidential system is more likely to find itself in a crisis of governance and will find it more difficult to solve the crisis before it becomes a regime crisis.[26] Such situations often cause both the president and the opposition to seek military involvement to resolve the crisis in their favor.

Guillermo O'Donnell documented a phenomenon observed in the new Latin American democracies in his extremely interesting (and alarming) article on "delegative democracy," a conceptual opposite of representative democracy.[27] Key characteristics of delegative democracy include (1) presidents who present themselves as being "above" parties, (2) institutions such as congress and the judiciary that are viewed as "a nuisance," with accountability to them considered an unnecessary im-

[25] Schmitter and Karl (fn. 4) quite correctly build into their definition of democracy the concept of accountability. But with the exception of the U.S. where a president can be directly reelected only once, no president in any other long-standing democracy in the world, once in office, can be held politically accountable by a vote of the citizens' representatives. The accountability mechanism is so extreme and difficult—with the political-legal-criminal trial that needs exceptional majorities (impeachment)—that the accountability principle in presidentialism is weaker than in parliamentarianism.

[26] For theoretical differentiation between crises of government and crises of regime, see Juan J. Linz and Alfred Stepan, eds., *The Breakdown of Democratic Regimes* (Baltimore: Johns Hopkins University Press, 1978), esp. 74.

[27] See O'Donnell, "Democracia Delegativa?" *Novos Estudos* CEBRAP, no. 31 (October 1991).

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pediment, (3) a president and his staff who are the alpha and omega of politics, and (4) a president who insulates himself from most existing political institutions and organized interactions and becomes the sole person responsible for "his" policies. We suggest that these characteristics of O'Donnell's delegative democracy are some of the predictable pathologies produced by the multiple logics of the presidential framework. Consider the following: Presidential democracy, due to the logic of its framework, always produces (1) presidents who are directly elected and (2) presidents with fixed terms. Presidential democracy often produces (1) presidents who feel they have a personal mandate and (2) presidents who do not have legislative majorities. Thus, the logic of presidentialism has a strong tendency to produce (1) presidents who adopt a discourse that attacks a key part of political society (the legislature and parties) and (2) presidents who increasingly attempt to rely upon a "state-people" political style and discourse that marginalizes organized groups in political society and civil society. Delegative democracy can no doubt exist in the other constitutional frameworks; however, the multiple logics of pure parliamentarianism seem to work against delegative democracy.

Why are there many enduring multiparty parliamentary democracies but no long-standing presidential ones? In a parliamentary system, the junior political parties that participate in the ruling coalition are institutional members of the government and are often able to negotiate not only the ministries they will receive, but who will be appointed to them. All members of the coalition have an incentive to cooperate if they do not want the government of the day to fall. In these circumstances, democracies with four, five, or six political parties in the legislature can function quite well.

There are far fewer incentives for coalitional cooperation in presidentialism. The office of the presidency is nondivisible. The president may select members of the political parties other than his own to serve in the cabinet, but they are selected as individuals, not as members of an enduring and disciplined coalition. Thus, if the president's party (as in President Collor's party in Brazil) has less than 10 percent of the seats in the legislature, he rules with a permanent minority and with weak coalitional incentives. On a vote-by-vote basis, the president may cajole or buy a majority, but repeated purchases of majorities are absolutely inconsistent with the principled austerity plans of restructuring that face most East European and Latin American democracies.

East European or Latin American political leaders who believe that their countries, for historical reasons, are inevitably multiparty in political representation are playing against great odds if they select a presiden-

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tial system, as the existing evidence demonstrates. Brazil's high party fragmentation, for example, has contributed to a presidential-legislative deadlock that has frozen the lawmaking process in an already fragile democracy. Party fragmentation, the lack of party discipline, and general party underdevelopment in Brazil have been exacerbated by its electoral system, which combines proportional representation with an open list. The 1990 elections yielded 8.5 effective parties in the Brazilian Chamber of Deputies and 6.0 in the Senate.[28] These numbers seem alarmingly high considering that all the long-standing, pure presidential democracies reported in Table 1 had fewer than 2.6 effective political parties.

Moreover, the closer a country approaches the ideal types of "sultanship," "totalitarianism," or early "posttotalitarianism," the "flatter" are their civil and political societies.[29] In these circumstances, adopting the constitutional framework of presidentialism in the period of transition from sultanship, totalitarianism, or early posttotalitarianism reduces the degrees of freedom for an emerging civil and political society to make a midcourse correction, because heads of government have been elected for fixed terms (as in Georgia). In contrast, the Bulgarian transition had significant parliamentary features, which allowed an emerging political society to change the prime minister (and the indirectly elected president) so as to accommodate new demands.

In Poland, where constitutional reformers are flirting with the idea of strengthening the role of the president, party fragmentation is even greater than in Brazil; the effective number of parties in the Polish Sejm after the 1991 legislative elections was 10.8.[30] Most of these parties in the Polish legislature, like those in Brazil, lack clear programs and exist as mere labels for politicians to use for election into office.[31] Our data suggest that Poland would be playing against the odds were it to move toward a purely presidential system.

Also flowing from the logic of the constitutional framework are the

[28] These numbers were calculated using the Laakso/Taagepera formula and the data reported in *Keesings Record of World Events* (1990); and Arthur S. Banks, ed., *Political Handbook of the World* (Binghamton; CSA Publishers, State University of New York at Binghamton, 1991).

[29] This argument is developed in Juan J. Linz and Alfred Stepan, "Problems of Democratic Transition and Consolidation: Eastern Europe, Southern Europe and South America" (Book manuscript), pt. 1.

[30] This is developed in Stepan and Suleiman (fn. 7).

[31] For a discussion of how both the political culture and the institutional structure in Brazil contributed to the country's weak party system, see Scott Mainwaring, "Dilemmas of Multiparty Presidential Democracy: The Case of Brazil," *Kellogg Institute Working Paper* no. 174 (Notre Dame, Ind.: University of Notre Dame, 1992). See also idem, "Politicians, Parties, and Electoral Systems: Brazil in Comparative Perspective," *Comparative Politics* 24 (October 1991); and his forthcoming book on Brazilian political parties.

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questions of why ministers serve short terms in presidential democracies and why they are rarely reappointed in their lifetime. Because presidents do not normally enjoy majorities in the legislature, they resort to rapid ministerial rotation as a device in their perpetual search for support on key issues. In parliamentary systems, by contrast, coalitional majorities make such rapid turnover unnecessary. Furthermore, key ministers usually have long and strong associations with their political parties and are often reappointed as government coalitions form and re-form during the life of their careers. In presidential democracies, ministers are strongly associated with a particular president, leave office when the president does, and normally never serve as a minister again in their life.

Conclusion

Let us consider the question that follows from the data. Why does pure parliamentarianism seem to present a more supportive evolutionary framework for consolidating democracy than pure presidentialism? We believe we are now in a position to say that the explanation of why parliamentarianism is a more supportive constitutional framework lies in the following theoretically predictable and empirically observable tendencies: its greater propensity for governments to have majorities to implement their programs; its greater ability to rule in a multiparty setting; its lower propensity for executives to rule at the edge of the constitution and its greater facility at removing a chief executive who does so; its lower susceptibility to military coup; and its greater tendency to provide long party-government careers, which add loyalty and experience to political society.

The analytically separable propensities of parliamentarianism interact to form a mutually supporting system. This system, qua system, increases the degrees of freedom politicians have as they attempt to consolidate democracy. The analytically separable propensities of presidentialism also form a highly interactive system, but they work to impede democratic consolidation.

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WEST EUROPEAN LABOR IN TRANSITION

Sweden and Germany Compared

By KATHLEEN THELEN*

THE past two decades have ushered in a period of profound uncertainty for labor movements in Western Europe. The crisis of Keynesianism left labor-based parties programmatically disoriented; and their search for new formulas and electoral allies has strained relations between the industrial and political wings of the labor movement.[1] In many countries conservative governments have presided over important policy shifts that have reduced union power by reintroducing more market pressures into relations between labor and capital.[2] And employers, though emboldened by higher unemployment, at the same time must cope with more volatile international markets. To that end, they have sought changes in traditional bargaining institutions and practices to restore the "flexibility" they feel they need to adjust to the dynamic market situation.[3]

These economic and political changes have had a dramatic impact on organized labor's position and powers across Western Europe. Not merely cyclical economic or policy shifts, these trends strike at key institutional foundations of the "postwar consensus" between labor and capital. Among the most important of these are national collective bargaining institutions, which have traditionally been a vital support for labor unity and strength.

This article focuses on the pressures to decentralize collective bargaining that have dominated much of West European labor politics since the 1980s.[4] A common trend has been toward the growing importance of

* This article has benefited from comments by participants at the workshop "The Swedish Model" held at the Wissenschaftszentrum Berlin für Sozialforschung in July 1992 and from comments by the participants in a seminar held at the Arbetslivscentrum in Stockholm in August 1992. Special thanks go to Rianne Mahon, Jonas Pontusson, Ben Schneider, David Soskice, Peter Swenson, and Birger Viklund.

[1] Frances Fox Piven, ed., *Labor Parties in Postindustrial Societies* (New York: Oxford University Press, 1992).

[2] Werner Sengenberger, "West German Employment Policy: Restoring Worker Competition," *Industrial Relations* 23 (Fall 1984).

[3] Wolfgang Streeck, "The Uncertainties of Management in the Management of Uncertainty," *International Journal of Political Economy* 17 (Fall 1987).

[4] For an overview, see Harry C. Katz, "The Decentralization of Collective Bargaining: A

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plant-level bargaining, as employers seek greater flexibility—to rearrange work to adapt to changing technologies and production requirements, to adjust working times and employment levels to fluctuations in demand, and to revise wages and compensation schemes to enhance plant productivity.

The particular pressures for bargaining decentralization have varied from country to country, depending on the institutional "starting points" in each place.[5] First, there are obvious and important differences in prior levels of centralization, ranging from more decentralized systems such as Britain's (with multiemployer agreements within industries) to more centralized systems such as Sweden's (where encompassing "peak" union and employer confederations bargained directly at the national level). Germany, an intermediate case, has bargaining between (multi-) industrial unions and employer associations but also a degree of de facto national coordination under the leadership of the metalworkers' union, IG Metall.[6] Second, despite common international trends, the substantive issues at stake vary according to the *particular* constraints faced by employers in each country. In Germany, for example, employment flexibility has been at the center of the storm because of union demands for reductions in working time, combined with employment constraints at the plant level imposed by strong codetermination legislation. In Sweden the issue has been wage flexibility, as employers have sought to eliminate the rigidities imposed by the unions' solidaristic wage policy.

Despite their different manifestations, however, these conflicts do share a common thread: employer demands for more room to negotiate broad trade-offs at the local level across a range of issues, including employment and working time arrangements, compensation systems, and work organization. Since resisting decentralization has not been possible for unions anywhere, the relevant question is how decentralization has occurred and what its implications are for traditional bargaining insti-

Literature Review and Comparative Analysis," *Industrial and Labor Relations Review* (forthcoming).

[5] For a broader cross-national framework for understanding contemporary labor politics that builds on an analysis of cross-national differences in institutional and political starting points, see Kathleen Thelen, "The Changing Character of Industrial Relations in Contemporary Europe" (Paper prepared for the workshop "A New Europe: Rethinking the Collective Response to Change," Center for European Studies, Harvard University, December 11–13, 1992); also Richard Locke and Kathleen Thelen, "The Shifting Boundaries of Labor Politics: New Directions for Comparative Research and Theory" (Paper presented at a workshop, also entitled "The Shifting Boundaries . . . ," Center for European Studies, Harvard University, March 12–14, 1993).

[6] Within industries, bargaining in Germany is actually conducted at the regional level. However, on the most important issues the results are coordinated by the central union headquarters.

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tutions above the level of the plant. Contemporary battles over decentralization have an important structural dimension, and their outcomes have broad implications for the institutions within which subsequent conflicts between labor and capital will be staged.

A comparison of the politics of decentralization in Germany and Sweden in the 1980s provides insights into the sources of resiliency and change in national bargaining institutions. Viewed through the lens of conventional theories, the outcome may seem somewhat paradoxical. Unions in Sweden are clearly stronger than those in Germany by standard measures, including higher membership levels and closer links to the Social Democratic Party. In addition, Germany's "dual" system of labor relations—in which plant-level works councils are formally independent of the industrial unions—reinforces exactly the institutional cleavage between the shop floor and the central unions that is at the heart of the centrifugal tendencies in contemporary labor relations. Declining solidarity at the national level and growing "egoism" at the plant level should be an especially significant threat in Germany.[7] In contrast, Swedish unions, with their strong formal links to the shop floor, would seem to be better positioned to cope with employers' "flexibility" strategies.

However, key conflicts in the mid-1980s—in both cases centering on the metalworking industries—led in the opposite direction. Whereas in Sweden these pressures for shop-floor flexibility escalated into an all-out attack by employers on national-level bargaining, and brought calls for a full decentralization of wage bargaining to the plant level, in Germany, by contrast, pressures for greater flexibility at the plant level did not generate the same kinds of demands for dismantling central (in this case industry-level) bargaining. Rather, these pressures were resolved *within* the existing framework through a process of "negotiated decentralization" that incorporates flexibility into central contracts and delegates new functions to plant works councils.[8]

The resiliency of traditional bargaining institutions in Germany is puzzling. Granted, and as mentioned above, the German system was less centralized to begin with, but German unions also confronted more difficult economic and political conditions. Since the early 1980s German

[7] For this view, see especially Hans-Willy Hohn, *Von der Einheitsgewerkschaft zum Betriebssyndikalismus* (From unitary trade unionism to plant syndicalism) (Berlin: Sigma Rainer Bohn Verlag, 1988).

[8] Since German unification in 1990, a new set of East-West frictions has emerged. Among other things, these revolve around the question of how quickly wages and working conditions in the "five new states" (former East Germany) should be brought into line with those in the West. These East-West conflicts pose a new kind of challenge to the German system, and it is not yet clear whether they will be dealt with as successfully as decentralization was in the 1980s.

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labor has had to contend with a conservative government advocating greater deregulation of the labor market[9] and with significantly higher unemployment, both of which should have placed employers in a stronger position vis-à-vis the unions. Employer restraint cannot be attributed to union quiescence and concessions; on the contrary, German unions scored very dramatic victories in the 1980s, including a five-hour reduction in the regular workweek. German employers had both the opportunity and a motive to seek fundamental change, but unlike their counterparts in Sweden, they repeatedly chose not to engage the unions in a full-scale battle over central bargaining. What accounts for the greater stability of bargaining institutions in Germany?

The argument advanced here stresses the role played by the institutional arrangements that structured the conflicts over decentralization and plant flexibility in the 1980s. Institutional links among different levels and arenas of bargaining shaped the strategic interactions of labor and capital, by encouraging or undermining union solidarity in defense of traditional bargaining arrangements and by defining incentives for employers to seek compromise within existing institutions.

As much as prior levels of centralization and solidaristic wage policy are important elements of the Swedish story, they do not by themselves explain the course of decentralization or the failure of the bargaining parties to negotiate a compromise within the existing framework. The institutional links between central and local bargaining magnified the problems associated with solidaristic wage policy—aggravating conflicts among workers in the same plant while simultaneously fueling ongoing wage inflation. These factors made Swedish institutions more vulnerable to defections on the part of particular groups of workers and to attack by employers. German institutions, by contrast, provided for more flexibility both across sectors and also between central negotiations and plant bargaining. In short, institutional arrangements in Germany helped to channel employer demands for flexibility, so that issues of decentralization were resolved by renegotiating relations between the central and shop-floor levels rather than by attacking central bargaining itself.

The Politics of Flexibility in Sweden and Germany

Sweden

Among labor scholars, Sweden has gained notoriety for its highly centralized system of bargaining, as well as for the labor movement's her-

[9] Sengenberger (fn. 2).

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alded policy of solidaristic wages, which has resulted in a substantial narrowing of wage differentials across the national work force over the last several decades.[10] Bargaining in Sweden for blue-collar workers traditionally occurred in peak-level negotiations between representatives of the peak employers' confederation (Svenska Arbetsgivareföreningen, or SAF) and representatives from the central union confederation for manual workers (Landsorganisationen i Sverige, or LO). White-collar workers are represented in a separate union confederation, Tjänstemännens Centralorganisationen (TCO), which has traditionally bargained separately with employers through a broader cartel of private sector white-collar unions, the Privattjänstemannakartellen, or PTK.

The rejection of centralized bargaining emanated not from the SAF itself, but rather from its largest and most powerful affiliate, the Swedish Engineering Employers' Association (Verkstadsföreningen, or VF).[11] Employers in the engineering industry had been critical of centralized, solidaristic bargaining for some time, but only in 1983 did they withdraw from peak-level negotiations and strike a separate deal with unions in the metalworking sector. Although the LO managed to coordinate negotiations in some subsequent wage rounds, the drive to decentralize bargaining has continued, and leading export firms such as ABB and Volvo favor a full decentralization of wage bargaining to the plant level.[12]

In a comprehensive account of the breakdown of the Swedish model, Pontusson and Swenson argue that the prime motive behind the employers' offensive was to escape certain rigidities in wage bargaining that had evolved over the preceding two decades.[13] Employers had originally agreed to solidaristic wage bargaining at the national level in part be-

[10] Scott Lash, "The End of Neo-corporatism? The Breakdown of Centralised Bargaining in Sweden," *British Journal of Industrial Relations* 23 (July 1985), 219. Solidaristic wage bargaining in Sweden dates back to the 1930s and was originally premised on the principle of equal pay for equal work, regardless of a firm's situation in the market. This policy, and the "Rehn-Meidner" model from the 1950s of which it formed a part, set in motion a dynamic that forced less efficient firms to modernize. For a short explanation of the Rehn-Meidner model and of solidaristic wage policy, see Andrew Martin, "The Dynamics of Change in a Keynesian Political Economy: The Swedish Case and Its Implications," in Colin Crouch, ed., *State and Economy in Contemporary Capitalism* (New York: St. Martin's, 1979), 104–8.

[11] The organization recently changed its name to Sveriges Verkstadsindustrier, or VI.

[12] Interviews with representative of VI, Stockholm, 1992.

[13] Jonas Pontusson and Peter Swenson, "Markets, Production, Institutions, and Politics: Why Swedish Employers Have Abandoned the Swedish Model" (Paper presented at the Eighth International Conference of Europeanists, Chicago, March 27–29, 1992). For other accounts of the breakdown of the Swedish model, see Andrew Martin, "Wage Bargaining and Swedish Politics: The Political Implications of the End of Central Negotiations," Minda de Gunzburg Center for European Studies Working Paper no. 36 (Cambridge: Harvard University, 1991); Göran Brulin and Tommy Nilsson, "From Societal to Managerial Corporatism: New Forms of Work Organization as a Transformation Vehicle," *Economic and Industrial Democracy* 12 (August 1991).

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cause central coordination delivered overall wage restraint. Moreover, the system as it originally operated was not as rigid as it seemed, since it allowed for substantial flexibility through wage drift negotiated in the plant after the central agreement had been reached.

Pontusson and Swenson demonstrate how developments in bargaining in the late 1960s and early 1970s had extended the principle of wage leveling from the original deal—intersectoral leveling within the private sector only—in two ways. First, wage leveling over time was extended to the lower-productivity public sector. Second, in the crucial metalworking industries, centralized bargaining produced deals that began to impose interoccupational leveling at the plant level as well.[14] These two developments undermined employers' support for solidaristic wage bargaining. Inclusion of the low-productivity public sector created inflationary pressures that put a squeeze on export-oriented firms in the engineering industries. Furthermore, interoccupational wage leveling imposed rigidities in plant wage structures that employers came to view as overly restrictive, especially in the context of Sweden's tight labor markets. Employers could use wage drift to compete for scarce skilled workers, but wage leveling clauses in central contracts compensated low-drift workers in the next round, leading to an ongoing, overall ratcheting up of wages.

Although it was the beginning of the end of peak-level bargaining, the 1983 withdrawal of VF was a "soft" confrontation. The engineering employers lured the metalworkers' union (Metall) out of the central deal by offering them a wage increase that essentially met the LO's demand, plus a restructuring of plant wage structures that benefited a large majority of the union's members.[15] While the remaining SAF affiliates reached an agreement with the LO (minus Metall), the 1983 round set a decisive precedent. Since that time, the LO has struggled against centrifugal tendencies.[16] However, national-level bargaining was premised on a "cross-class alliance" in which engineering employers had been a key component,[17] so LO coordination has proved difficult to sustain without their support.

By the late 1980s the decentralizers had taken control of the peak employers' association itself. In February 1990 SAF dismantled its own cen-

[14] Pontusson and Swenson (fn. 13), 11–13; see also Martin (fn. 13), 84.

[15] Interview with Göte Larsson, head of Metall's collective bargaining department, and with Åke Nordlander, the then president of VF, both August 1992.

[16] See especially Martin (fn. 13) for a chronology.

[17] Peter Swenson, "Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden," *World Politics* 43 (July 1991).

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tral bargaining unit, making it impossible to return to peak-level negotiations. The new chairman of the organization described the move as "historic" and declared that the "so-called 'Swedish model' is now dead . . . there is no turning back."[18] More importantly, pressures for decentralization have not abated with the shift to industry-level bargaining. Leading export companies such as ABB, Volvo, and Ericsson are pushing for full decentralization of wage bargaining to the plant level, and representatives of key industry associations have added their endorsement. They envision a reduced role for their own organizations, perhaps negotiating broad framing agreements on general working conditions but mostly "acting as consultants to companies, providing support, organizing the sharing of information among firms [and] taking up bargaining in those cases where the local parties could not achieve an agreement."[19] In short, employer support for traditional (peak-level) bargaining institutions has collapsed, and even industry-level bargaining is not entirely secure, as key business leaders have embraced the idea "that it is time for the employers themselves, in each firm, to decide on wages and conclude local agreements on working conditions suited to their special needs and circumstances."[20]

Germany

Even as the crisis of the Swedish model deepened, students of German labor relations in the 1980s were impressed with the relative stability of bargaining institutions in the face of new pressures in that country.[21] Although the process of decentralization was initially more overtly conflictual, the outcome in Germany was characterized by a much higher degree of continuity and compromise than was the case in Sweden. The

[18] Quoted in Martin (fn. 13), 90.

[19] Interviews with representatives of VI and ALMEGA (an employers' association covering several industries, including chemicals, mining, building materials, food, and leather), August 1992. The quote is from Göran Trogen, managing director of ALMEGA.

[20] Göran Brulin, "Reintroduced Works Councils Activities but under Strong Trade Unionism: The New Swedish Model?" (Manuscript, Royal Institute of Technology and the Department of Business Administration and Management at the Stockholm University, n.d.), 32. Brulin is referring to views expressed in a book by SAF chairman Ulf Laurin.

[21] Lowell Turner, *Democracy at Work* (Ithaca, N.Y.: Cornell University Press, 1991); Kathleen Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca, N.Y.: Cornell University Press, 1991); Peter J. Katzenstein, ed., *Industry and Politics in West Germany: Toward the Third Republic* (Ithaca, N.Y.: Cornell University Press, 1989); Wolfgang Streeck, "Successful Adjustment to Turbulent Markets: The Automobile Industry," in Katzenstein. There have been dissenting voices, of course, but most of these consider the main destabilizing factor to be the problems created by unification and not the more general cross-national trends stressed here. See, e.g., Birgit Mahnkopf, "Vorwärts in die Vergangenheit? Pessimistische Spekulationen über die Zukunft der Gewerkschaften in der neuen Bundesrepublik," in Ulrich Busch et al., eds., *Wirtschaftspolitische Konsequenzen der deutschen Vereinigung* (Frankfurt am Main: Campus Verlag, 1991).

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crucial battle came in 1984, in the context of the largest strike in the history of the Federal Republic. Waged on a national level by the metalworkers' union, IG Metall, the strike was over the union's demand for a general reduction of weekly working time to thirty-five hours with full pay.[22]

Early negotiations yielded no progress. Finally, six weeks into the strike both sides agreed to impartial mediation. In the resulting compromise employers accepted a 1.5 hour reduction in the workweek in exchange for flexibility in implementing the reduction at the plant level. The central contract laid down parameters for a second round of bargaining in which plant works councils and managers would negotiate implementation of the reduction, for example, whether to cumulate the hours into free days or distribute them over all or some days of the week. There was provision for adjustment of working times in response to changes in demand.[23] The compromise also permitted different working times for different workers, for example, maintaining a longer regular workweek for skilled workers to avoid production bottlenecks.

The 1984 contract set a pattern for compromises in two subsequent bargaining rounds, in 1987 and 1990, over further reductions in working time. Indeed, because the 1984 settlement had effectively shifted the point of contention from blanket reductions in weekly working times to flexibility in working time arrangements at the plant level, these later bargaining rounds were remarkably peaceful.[24] Thus, the 1987 and 1990 contracts virtually adopted the 1984 formula—reduction of working time within centrally defined parameters—though they specified somewhat more flexible parameters for the implementation of the new terms.

In Germany, then, the kinds of wage rigidities against which Swedish employers reacted were not at issue. Rather, employment rigidities were at the heart of the German conflict, in part because strong codetermination rights make it hard for employers to lay off workers. The compromises in the 1980s addressed these constraints by giving employers new freedom to vary working times, both over time and across the work force.

Beyond the substantive outcome, what is crucial for the present argument is the effect of the conflict on traditional bargaining institutions

[22] For a full analysis of the strike, see Thelen (fn. 21), chap. 7.

[23] For example, the 1984 contract reduced working times to 38.5 hours, but the number of hours actually worked each week could vary, so long as the total averaged out to 38.5 hours per week over the course of a two-month period.

[24] On the trade-off between further work-time reduction and flexibility, see, for example, the remarks by Hans Peter Stihl, head of the metalworking employers' association for Baden-Württemberg, in *Handelsblatt*, February 23, 1987.

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themselves. The formula devised to break the deadlock in 1984 and carried over to subsequent contracts called for continued central negotiation of parameters that would in turn set the bounds for decentralized negotiations between works councils and individual employers. The outcome was not so much the breakdown of central bargaining as a reshuffling of relations between the central union and plant works councils. The compromise was a negotiated decentralization that in many ways shored up industry-level bargaining but also introduced new elements of flexibility into central contracts.

From the union's perspective, such decentralization was acceptable, if not optimal, because the vast majority of works councillors are union members and because the compromise represented an extension of, rather than a fundamental challenge to, the traditional division of labor between the two bargaining levels. For their part, the employers found this kind of decentralization attractive because of their long history of compromise with their works councils. And there was no need to dismantle central bargaining (which, after all, still had its advantages) so long as additional plant-level flexibility could be incorporated into central contracts.

Compared with their Swedish counterparts, German employers maintained a remarkable commitment to traditional bargaining arrangements, despite the major concessions on average working times. In a telling comment on the 1987 agreement, Werner Stumpfe, head of the National Employers' Association for the Metalworking Industries, said that although employers had serious reservations about including apprentices in the deal, they agreed to this union demand because apprentices are prospective union members. According to Stumpfe, "We saw that if we want to preserve the strength of IG Metall, we cannot weaken the union on this point."[25]

Representatives of employers' associations in Germany continue to reaffirm the positive functions performed by the country's system of organized interests (*Verbandssystem*).[26] While eager to ensure flexibility, they insist, in the words of a representative of the Federation of German Employers' Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände, or BDA) that "we should take care of flexibility within the existing system" of bargaining.[27] This explains the cool response by

[25] *Kölner Stadt Anzeiger*, June 12, 1987.

[26] Interviews with representatives of the national employers' association for the metalworking industries (Gesamtmetall) and the association of metalworking employers in Berlin and Brandenburg, August 1992; see also *Die Zeit*, August 28, 1992, p. 21.

[27] Interview with a member of the collective bargaining department of the BDA, August 1992.

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German business to a proposal in 1992 by the former economics minister (Jürgen Möllemann) to give employers in Germany's five new eastern states opportunities to seek concessions at the plant level, but outside the framework of national collective bargaining.[28] In short, despite continuing tensions and even heightened demands for more flexible wages and working times, German employers are still committed to negotiating compromises within the country's traditional bargaining system.

Alternative Explanations

Political Dynamics and Industrial Change

One possible explanation for the different degrees of stability of bargaining institutions in Sweden and Germany might be political. In both countries social democratic governments lost power in the 1980s. In Sweden the conservatives held power from 1976 to 1982 and have been in power again since 1991. In Germany the Social Democrats left office in 1982 and have not been back. Labor's industrial fate is of course linked to such political shifts.

The political and industrial wings of the labor movement are undoubtedly closer in Sweden than in Germany, so Swedish unions were perhaps bound to be more profoundly affected by the political fortunes of the Social Democratic Party. In Germany, by contrast, the unions were never as close to the Social Democratic Party, and direct state intervention always played a less prominent role in labor-capital relations.[29] Hence, the argument here might be that conservative politics in Germany would be less problematical for the unions, especially since other political and institutional arrangements in Germany militate against the kind of dramatic policy shifts that might hasten the demise of centralized bargaining.[30]

A closer look at both cases, however, shows that the relationship between political shifts at the national level and changes in labor relations are not at all direct but instead are highly mediated and contingent.

[28] Möllemann proposed legislation that would allow works councils and managers in the East to negotiate plant-level deviations from the collectively bargained industry agreements. My assessment of employers' reactions is based on interviews with representatives of Gesamtmetall, the BDA, and the metal employers in Berlin and Brandenburg. As one employer representative put it: "If there is going to be any such flexibilization [of contracts] for firms in the East, then this possibility should be established in the contracts themselves, and not through ministerial decree. It has to be done by the bargaining partners themselves." On this proposal, see also *Handelsblatt*, September 15, 1992; and *Die Zeit*, July 3, 1992, p. 21.

[29] Thelen (fn. 21), chap. 2.

[30] Peter J. Katzenstein, *Policy and Politics in West Germany: The Growth of a Semisovereign State* (Philadelphia: Temple University Press, 1987), esp. chap. 1.

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Swedish employers, for example, began their campaign for decentralization in 1983, a year after the conservatives left office. Moreover, the variations in the decentralization process have not corresponded with the national political shifts. Thus, the Social Democrats appointed a mediation committee to coordinate peak-level bargaining before they left office in 1991, and the newly elected conservative government extended rather than discontinued the work of this commission—even though this constituted a partial recentralization.[31]

In the case of Germany, it is true that central bargaining always relied less heavily on supporting policies by the government. The puzzle, however, is why employers consistently chose to compromise with the unions when they clearly could have counted on support from the government had they chosen to confront the unions politically or industrially. In 1986, for example, the conservative government passed a new strike law that would undermine the highly successful strategy pursued by the metalworkers' union in the 1984 strike over working time reduction.[32] Since employers had publicly opposed further cuts in working hours, some observers predicted that they would use the new legislation to defeat the union on this issue.[33] But despite the fact that the government had given employers exactly the strike law they had wanted in 1984, employers chose not to exploit the advantage they gained through the new legislation, and instead agreed in 1987 and 1990 to further reductions in the workweek.

In short, the link between the political context and employers' industrial strategies is qualified at best. In Sweden variations in centralization do not correspond to the shifting political conditions. In Germany the political climate was more favorable to employers. Nevertheless, German employers chose compromise over confrontation with the unions, although the price was not low—a total reduction of five hours in regular working times in three bargaining rounds between 1984 and 1990. These observations demonstrate the need to look beyond broad political shifts to understand the specific incentives pushing employers either to compromise or to confront the unions on the decentralization issue.

Economic Context

A second explanation for the different outcomes in Sweden and Germany looks to differences in the macroeconomic context. In the 1980s

[31] The Rehnberg Commission, named after the former head of the Labor Market Board, presided over the 1991 and 1992 wage rounds.

[32] The legislation deprived workers who were laid off because of strike-related parts shortages of the right to apply for unemployment benefits.

[33] For example, Stephen Silvia, "The West German Labor Law Controversy: A Struggle for the Factory of the Future," *Comparative Politics* 20 (January 1988).

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the German economy outperformed the Swedish economy in inflation, exports, and growth, though not in employment. Perhaps the relative strength of the German economy generally, or the success of German export firms more specifically, gave employers a greater "buffer" in their relations with labor. Swedish employers struggling against declining international competitiveness may have felt more pressed to take a more confrontational approach in their relations with the unions. In addition, where German employers could presumably count on higher unemployment to moderate the unions, and thus reduce the need for a political confrontation, their counterparts in Sweden faced tighter labor markets that would fuel wage inflation and thus exacerbate their competitive difficulties.

This is a plausible argument. It should be borne in mind, however, that there is a broad literature which reverses the causal arrow, arguing that while markets certainly affect union relations, labor politics per se has contributed to the economic successes enjoyed by these countries in the past.[34] To take the most obvious example, Swedish employers themselves actively orchestrated the centralization of bargaining, which had the well-known benefit of controlling wage inflation in the 1960s through national coordination.[35] If employers had previously consented to centralized bargaining in part because of inflation, then why did they move to dismantle the system when they did—precisely when inflation was very high? And although unemployment had risen from its record lows in the 1970s, labor markets in the 1980s were still relatively tight, particularly for skilled workers. If, as many would argue, the only way to fight inflation in a country like Sweden is with the cooperation of its strong national unions, why would employers want to dismantle centralized bargaining?[36]

Likewise in the German case, there may be something to the argument that German employers in the 1980s had somewhat more leeway for concessions because of their relatively strong position in international markets. But it is hard to imagine that employers were so secure in their

[34] On Germany, see especially Streeck (fn. 21). On Sweden, see the large literature on democratic corporatism, especially Peter J. Katzenstein, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1984); David Cameron, "Social Democracy, Corporatism, Labour Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Oxford University Press, 1984); Peter Lange and Geoffrey Garrett, "The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974–1980," *Journal of Politics* 47 (August 1985).

[35] Peter Swenson, *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany* (Ithaca, N.Y.: Cornell University Press, 1989).

[36] See also Pontusson and Swenson (fn. 13), 4–5.

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competitive strength that they felt they could afford a five-hour reduction in the workweek. Certainly the intensity of their opposition during the 1984 strike (which involved massive lockouts that were unprecedented in the history of the Federal Republic) indicates otherwise. Related to this, while unemployment certainly contributed to moderate wage demands by Germany's central unions in that period, the campaign over a reduction in the workweek is hardly evidence of a union movement "tamed" by the market. Why employers chose in this context to negotiate compromises within the traditional system of bargaining rather than attack that system as in Sweden cannot be explained with reference to macroeconomic factors alone.

Employer Organization and Strategies

A third explanation for differences in the two countries looks to differences in their employer organization or strategies. In both cases the metalworking industry was a key site of conflict over plant-level flexibility. But the dynamics within the industry were quite different. In Sweden large, export-oriented firms such as Volvo and ABB have been the driving forces behind decentralization.[37] These firms dominate the VI, and this (as well as the sheer size of such companies in this small economy) has clearly allowed them to set the agenda and terms of the decentralization debate. In Germany, by contrast, it was employers in small and medium-size firms who were most insistent that no concessions on working time be made to the union.[38] While large engineering firms in Germany also opposed reductions in working time, they nevertheless demonstrated greater willingness to compromise with the union on this issue. Although in both countries the large export-oriented employers prevailed within their respective organizations, the outcome was different in the two cases because the winners wanted different things: in Sweden the dismantling of traditional bargaining institutions and radical decentralization, in Germany continued industry-level negotiation and bargained flexibility.

A focus on employer organizations is certainly a necessary corrective to most analyses that consider the politics of decentralization almost exclusively from the perspective of *union* solidarity and strength.[39] But intraorganizational politics on the employer side does not answer the prior question of why employer strategies differed in the first place, and espe-

[37] Martin (fn. 13), 41.

[38] *Handelsblatt*, May 8, 1990; see also Thelen (fn. 21), 177–78.

[39] See especially Swenson (fnn. 35 and 17) on the importance of employer organization and strategies.

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cially why large engineering firms in the two countries took such different positions on the desirability of decentralizing to the plant level. Explaining these differences requires an examination of the particular institutional arrangements that defined the strategic dilemmas and opportunities faced by employers in each country.

In Sweden, for example, solidaristic wage bargaining had a substantial impact on wages, costs, and profits, which clearly played a central role in employers' rejection of traditional bargaining arrangements. In their account of the breakdown of centralized bargaining in Sweden, Pontusson and Swenson emphasize how the extension of the solidarity principle in the 1960s and 1970s created new inflationary pressures and increased employer opposition.[40] The cost argument is key, but to understand why employers adopted the particular strategies they did, one must consider how the problem of controlling wages came to be bound up in the *structure* of bargaining itself. Emphasizing costs without understanding the institutional bases of wage pressures in Sweden makes it difficult, for example, to comprehend why VF's initial break with central negotiations involved a wage package that *met* the LO's demand and revised wage structures *upward*.

In short, the particular pattern of politics that accompanied bargaining decentralization in Germany and Sweden is a function of the institutional arrangements that shaped the strategic options available to both labor and capital. An analysis of strategic maneuvering within institutional constraints shows why the search for wage flexibility in Sweden escalated into an attack on traditional bargaining institutions while the struggle over flexibility in working time in Germany could be resolved without similarly dramatic institutional reconfiguration.

The Institutional Bases of Resiliency and Change

The progress of decentralization in Sweden and Germany was powerfully conditioned by historically evolved differences in the institutionalized relations between national and subnational bargaining structures. The institutional links between the various arenas and levels of bargaining defined the issues that employers came to perceive as inflexible and constraining in times of market uncertainty and that thus became the target of their demands for decentralization. Furthermore, the relationship between centralized negotiation and shop-floor bargaining shaped the outcome of these conflicts by defining the strategic options available

[40] Pontusson and Swenson (fn. 13).

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to both labor and capital and by either facilitating (Germany) or complicating (Sweden) the search for compromise within traditional bargaining institutions.

Specifically, two features of the institutional landscape were critical to the outcomes of the decentralization struggles of the 1980s: (1) the extent to which interorganizational cleavages at the national level (for example, between different national bargaining structures or organizations) were reproduced in plant-level cleavages in interest representation, and (2) intraorganizational relations between central union actors and shop-floor representatives. Although the institutions of German labor relations appear more rigid because they are more legalistic, and because the dual system involves a sharper formal distinction between plant works councils and central unions, they in fact turned out to be more resilient and capable of absorbing the new pressures for plant-level flexibility. The long history of unified but autonomous plant representation in Germany contributed to this outcome by offering an outlet for tensions over plant flexibility; in Sweden, by contrast, such tensions helped to bring down strong centralized bargaining.

Institutional Cleavages

Clearly, some of the difference between Sweden and Germany can be explained by the fact that bargaining in Sweden was more centralized to begin with (that is, it occurred at the national rather than the industrial level) and by solidaristic wage bargaining that narrowed wage differentials both across industries and within firms. The peak trade union confederation in Germany, the Deutscher Gewerkschaftsbund (DGB), has never bargained for its affiliates in the way that the LO did. And although there has been a degree of informal national coordination under the leadership of IG Metall, a higher degree of flexibility (including greater intersectoral differentials) was built into the German system from the start. Among other things, this has meant that the public sector–private sector split that has played a role in the breakdown of centralized bargaining in Sweden has not been as contentious in Germany.[41]

The type of wage flexibility sought by Swedish employers was not an issue in Germany, in part because German unions have never pursued a

[41] On the Swedish case, see Peter Swenson, "Labor and the Limits of the Welfare State: The Politics of Intraclass Conflict and Cross-Class Alliances in Sweden and West Germany," *Comparative Politics* 23 (July 1991). In Germany, the main public sector union (Gewerkschaft Öffentliche Dienste, Transport und Verkehr, or ÖTV) generally follows the metalworkers' lead in terms of percentage increases, but the contracts do not promote wage leveling between the two. Moreover, some public sector workers in Germany (tenured civil servants) do not have the right to strike or even bargain collectively.

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strong solidaristic component in their wage policy across industries; indeed, the structure of bargaining itself made this virtually impossible. And although individual German unions are in principle committed to reducing wage differentials *within* sectors, in practice they have always subordinated this goal to others. This has meant, for example, that pay differentials between skilled and unskilled workers have remained much more pronounced in Germany. In Sweden, by contrast, to the extent that wage leveling was embedded in the institutions of centralized bargaining, it was virtually inevitable that the drive for wage flexibility would be bound up in an attack on centralized bargaining itself.

But there is more to the story than the overall degree of centralization in bargaining. Thus, although Sweden's national-level confederations may have exercised greater control over their industrial affiliates than their counterparts in Germany, in other ways Swedish bargaining is in fact less unified than German bargaining. As noted above, bargaining for white- and blue-collar workers in Sweden is conducted separately (though both traditionally took place in highly centralized national-level negotiations)—by the LO for blue-collar workers, by the PTK for white-collar workers. In Germany, however, bargaining within individual sectors is more unified because industry contracts cover both blue- and white-collar workers.[42]

The institutionalized cleavage between blue- and white-collar organizations played a strong supporting role in the breakdown of centralized bargaining in Sweden. This division was reproduced at the plant level, and during the 1980s it became increasingly salient politically, as technological changes and the widespread move by employers to reorganize production blurred the distinction between white- and blue-collar work.[43] Even though the LO had successfully reduced differentials among manual workers, it could not directly regulate differences between its own members and white-collar workers.[44] This led to plant-level tensions between competing organizations, as highly skilled blue-collar workers were sometimes performing work quite similar to that done by members of the white-collar union but at a much lower rate of pay.[45]

[42] The rival white-collar confederation in Germany (Deutsche Angestellten Gewerkschaft, or DAG) organizes less than one-fourth of all unionized white-collar workers. The rest are members of DGB unions. See Andrei S. Markovits, *The Politics of the West German Trade Unions* (New York: Cambridge University Press, 1986), 11.

[43] Pontusson and Swenson (fn. 13), 32–33; Lash (fn. 10), 222; Rianne Mahon, " 'Loneta-gare' and 'Medarbetare'? The Swedish Unions Confront the 'Double Shift' " (Paper presented at workshop on "The Changing Place of Labor in European Society: The End of Labor's Century?" Center for European Studies, Harvard University, November 23–24, 1991), 21–22; and Brulin and Nilsson (fn. 13).

[44] Mahon (fn. 43), 10–11.

[45] Martin (fn. 13), 36.

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This problem was especially pronounced in the metalworking industries, and it contributed to the willingness of the metalworkers' union (Metall) to withdraw from peak-level bargaining in 1983. The industry contract agreed to by the union that year relaxed interoccupational wage leveling, among other things, by adding another higher-pay category to the existing wage structure.[46] While it was employers who were pressing for more wage flexibility, jurisdictional disputes between Metall and its white-collar rival, SIF (Svenska Industritjänstemannaförbundet, or Union of Salaried Employees in Industry), made the deal irresistible. Lash quotes a Metall official on why the union had not opposed a separate deal with the VF more forcefully: he said simply, "We were losing too many members to SIF."[47]

In Germany, too, work reorganization and technological change since the 1980s have blurred the line between white- and blue-collar work. The cleavage is not as salient in terms of bargaining structures, however, because the individual industrial unions organize both white- and blue-collar workers within their jurisdictions.[48] There is a white-collar confederation in Germany (the Deutsche Angestellten Gewerkschaft, or DAG), but apart from certain sectors such as banking, it is much weaker than the industrial unions, which organize over three-quarters of all unionized white-collar workers.[49] While tensions between the DAG and the industrial unions of the DGB can flare up, informal jurisdictional boundaries in most sectors prevent them from becoming as politically salient as they are in Sweden. More important, the DAG is organizationally much weaker than its Swedish counterpart and follows the lead of the industrial unions in collective bargaining.

In short, the relative resiliency of centralized bargaining structures is substantially dependent on whether labor movements are (overall) more or less centralized; however, what also matters is *which* cleavages run through them and how these intersect with employers' changing substantive strategies at the plant level, in this case especially with respect to work reorganization since the 1980s. Germany's system of industry-level bargaining (rather than national-level bargaining for all blue-collar

[46] Ibid.

[47] Lash (fn. 10), 222.

[48] Another reason is the much lower overall level of unionization among white-collar workers in Germany. In Sweden over 70% of white-collar workers are organized, and white-collar unions comprise over 40% of total union membership; in Germany only 22% are organized and these make up about 25% of total union membership. Swedish figures are from Anders Kjellberg, "The Swedish Trade Union System: Centralization and Decentralization" (Paper presented at the Twelfth World Congress of Sociology, Madrid, July 9–13, 1990); German figures are from Walther Müller-Jentsch, *Basisdaten der industriellen Beziehungen* (Frankfurt am Main: Campus, 1989).

[49] See fn. 42.

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workers) provides more give in the system *across* industries while more unified representation *within* industries minimizes jurisdictional competition over different kinds of workers in a single plant.

Relations between Central and Plant-Level Bargaining

A second key difference between Germany and Sweden concerns the relationship between centralized bargaining and shop-floor representation. Paradoxically (and contrary to received wisdom on the instability of the dual system),[50] the long-standing tradition in Germany of strong and autonomous works councils mitigated pressures for the abandonment of industry-wide bargaining and instead encouraged "negotiated decentralization." In Sweden, by contrast, the character of the links between shop-floor and national union bargaining created rigidities in both the level and the structure of wages that contributed to the breakdown of centralized bargaining itself.

In the case of Germany, the tradition of autonomous works councils dates back to the original 1920 Works Council Law. When the works councils were re-created after the Second World War by the conservative Adenauer government, the unions were highly skeptical of works council independence.[51] However, by the late 1960s they had come around to the view that formally separate but informally union-dominated works councils were not a threat—indeed, in many ways they were an important stabilizing factor for centralized bargaining. Thus, when Germany experienced rank-and-file unrest and calls for greater power for the shop floor in the late 1960s, the unions responded with their own proposals for extending plant-level codetermination. In a way that reflected a huge vote of confidence for the works councils: no longer viewed as a threat to central union power, they were considered an essential complement to it.

The division of labor between central and shop-floor bargaining worked out in the unrest of the late 1960s and early 1970s in the metalworking industries set the stage for the later compromise over flexibility. On the one hand, the union fended off proposals by more radical factions for an extension of union wage bargaining to the plant level (*betriebsnahe Tarifpolitik*). Works councils are legally prohibited from bargaining over wages, though they negotiate informally over sometimes substantial wage drift. What the union refused to do at that time was replace this system with one that would contractually guarantee the additional income by supplementing industry-level bargaining with formal (union)

[50] See especially Hohn (fn. 7).
[51] Thelen (fn. 21), chaps. 3, 4, on which this and the next two paragraphs draw.

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bargaining at the plant level. On the other hand, the unions demanded, and in 1972 won, greater statutory rights for works councils in a range of other areas relating to plant personnel policy and working arrangements, rights that have in fact acquired greater importance since the 1980s. As Streeck noted years ago, the formal autonomy of the works councils (and legal prohibition against wage bargaining) prevented them from interfering with the unions' representational monopoly, while their de facto association with the unions allowed for the incorporation of works councils into union policy and strategies.[52] Thus, union contracts have traditionally given works councils significant leeway in managing plant employment issues, wage structures, and work schedules, and they have also relied on the strong statutory rights of works councils to realize union goals with respect to issues such as work organization.[53] The compromise on working time reduction in the 1980s conformed to (and also extended) the flexible division of labor that had evolved between works councils and the central union since the revised Works Constitution Act was passed in 1972.

This is not to say that when the question of decentralization was posed in a different context—that of *employer* demands for flexibility—that the union willingly and easily ceded new powers to the works councils. Hans Mayr, the president of the metalworkers' union at the time of the 1984 strike, emphasized the controversial nature of the union decision to accept the mediator's compromise on working time reduction.[54] In the end, however, the longer tradition of shop-floor independence with central coordination ultimately contained the prerequisites for the kind of negotiated decentralization that the working time agreement institutionalized. In fact, the debate within the union has shifted in the meantime, and the question is no longer whether to allow flexibility, but what kind, how much, and under what conditions. Top union officials have themselves endorsed an "à la carte" approach in which central contracts would lay out a "menu" of options from which local bargainers could make their selection.[55]

[52] Wolfgang Streeck, "Gewerkschaftsorganisation und industrielle Beziehungen: Einige Stabilitätsprobleme industriegewerkschaftlicher Interesenvertretung und ihre Lösung im System der industriellen Beziehungen der Bundesrepublik Deutschland," IIM *Discussion Paper* 79–30 (Berlin: Wissenschaftszentrum Berlin, 1979).

[53] It is not uncommon, for example, for central contracts to contain "opening clauses" on nonwage issues that call for a second round of bargaining by works councils at the plant level.

[54] Interview with Mayr, Frankfurt am Main, 1989.

[55] Both Franz Steinkühler, president of IG Metall, and Klaus Zwickel, the executive board member in charge of collective bargaining policy, have endorsed this approach. See *Kölner Stadt Anzeiger*, August 27, 1988; Zwickel's speech in IG Metall, *Die Andere Zukunft: Solida-*

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In Sweden the relationship between central unions and shop-floor representation (though formally closer, as local "workshop clubs" are officially union bodies) is in some ways more ambivalent and problematical. The developments in Germany described above reinforced central control over wage rates and general working conditions but also gave works councils substantial (and increasing) leeway to adapt centrally negotiated contracts to local conditions. In Sweden, however, developments in wage bargaining in the 1960s gave local representatives *more* power than their German counterparts to influence wage levels, but *less* leeway to negotiate local trade-offs in other areas of increasing importance to employers. The result was a curious combination of shop-floor strength and weakness that magnified rather than alleviated pressures on centralized bargaining.

A major difference between the German and Swedish systems lay in the way each dealt with locally bargained wage drift. In Germany wage drift is not guaranteed from one year to the next. Rather, annual percentage increases in industry-level bargaining are applied to the previous year's contractual rates, irrespective of locally bargained drift (an arrangement that was reinforced with the defeat of *betriebsnahe Tarifpolitik*). By contrast, developments in wage bargaining in Sweden in the 1960s began to compensate for differences in wage drift both across and within industries.[56] With negotiations centering not just on contractual hourly rates (as in Germany), but also on effective wages (that is, including the previous year's wage drift), the results of bargaining at different levels (central, industry, and plant level) became cumulative from one bargaining round to the next.[57]

From the employers' perspective, the result was what Anders Sandgren, a member of the VI bargaining unit, called a "three-stage rocket."[58] The only way to break the cycle was either for individual employers to hold the line in plant-level bargaining (not easy, since they were competing among themselves for skilled workers in tight labor markets) or for employers to solve the problem collectively by reducing the number of bargaining levels. As Sandgren put it: "A choice was necessary; we could not have costs imposed at all three levels. The choice that was made was that we should negotiate wages at only one level [the plant]."

But if the powers of Swedish shop stewards were in some ways am-

rität und Freiheit, 6 vols. (Cologne: Bund Verlag, 1988), 6:11–28, esp. 18; and Steinkühler's remarks in *Die Andere Zukunft* 4:126–28.

[56] Pontusson and Swenson (fn. 13), esp. 42–45.

[57] Interview with representative of Metall, August 1992.

[58] Interview with Anders Sandgren, Stockholm, August 1992.

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plified by the arrangements described above, other features of solidaristic wage policy imposed important *constraints* on shop-floor bargaining. Traditionally, and in part as a result of labor's emphasis on national distributional policy, shop-floor representation in Sweden has been more clearly subordinated to central union strategies than it has in Germany.[59] It is no coincidence, for example, that Swedish unions were slower and more ambivalent than German unions about demanding strong plant-level codetermination rights. Shop-floor unrest in the late 1960s revolving around demands for increased shop-floor powers did stir the unions to action, and they pressed successfully for legislation that expanded the codetermination rights of the union shop steward committees.[60]

However, at precisely the same time that they were preparing to extend the powers of shop stewards on some issues (for example, work organization and safety), Swedish unions were pursuing other policies that imposed important new *constraints* on shop-floor negotiations. The most important of these affected plant wage structures. As Pontusson and Swenson point out, central bargaining innovations in the late 1960s imposed new rigidities in plant wage structures that would later weigh heavily in employers' rejection of centralized bargaining.

> Until 1969, existing intra-firm distributional patterns were untouched by the centralized bargaining system, whose "redistributive" role was confined largely to governance of gross intersectoral differentials, by counteracting [wage] drift and slowly narrowing the differentials. Managerial strategies, labor market forces, and local norms ruled over firm-level distribution. In 1969, the LO-SAF agreement for the first time required that distributional guidelines for firm-level interoccupational leveling had to be applied—unless the negotiating parties at the sectoral or firm level could agree otherwise.[61]

In other words, new clauses were introduced into central agreements to equalize pay between lower- and higher-paid workers *within plants*. Because of interoccupational leveling, higher wage drift for skilled workers was carried over to the unskilled. Combined with the cumulative nature of wage increases discussed above, this fueled an ongoing, overall ratcheting up of wages.[62]

[59] See, e.g., Mahon (fn. 43), 8–9.

[60] However, the resulting legislation is in some ways weaker than German codetermination. For a comparison of Swedish and German codetermination, see Thelen (fn. 21), 209–14.

[61] Pontusson and Swenson (fn. 13), 11–12.

[62] It is important to note that there was nothing inevitable about the extension of solidarity to encourage intrafirm wage leveling. In fact, one of the architects of the Swedish model, former LO economist Gösta Rehn, is critical of the trend toward wage compression between the skilled and unskilled (interview with Rehn, Göteborg, May 1991).

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The provision for interoccupational wage leveling thus became a built-in source of inflationary pressure, as well as an important constraint on local control over the plant wage-setting process, undermining the ability of large employers to use wage drift as a "managerial tool," especially to recruit and retain skilled workers in tight labor markets.[63] The effects of these contractual provisions were especially pronounced in the engineering industries, which helps explain why the VF led the attack on centralized bargaining.[64] Their 1983 contract with the metalworkers' union directly confronted this problem and conceded greater local flexibility on the wage differentiation issue. In addition to the fourth pay category mentioned above, the engineering agreement eliminated the previous rules governing the intrafirm distribution of wage increases.[65]

In short, unlike in Germany, plant wage structures were effectively "bracketed" from the package of longer-term trade-offs that individual employers could negotiate locally. Because of the cumulative nature of bargaining and interoccupational leveling enshrined in central contracts, any flexibility employers could win through plant bargaining over wage drift was superseded in the next bargaining round, which reimposed rigidities at a higher overall level. In a very important sense, even if they wanted to, plant labor representatives could not give employers the flexibility they sought on this issue, leading employers to conclude that the only way to reclaim the initiative on plant wage structures and to control costs was to attack centralized bargaining itself. The result was thus very different from the German pattern of negotiated decentralization, in which greater flexibility on working times was incorporated into centralized bargaining contracts themselves, by delegating new responsibilities to plant works councils and openly sanctioning substantial (though bounded) plant-level differences in working time arrangements.

Signs of Convergence?

In Germany the pressures for decentralization that appeared in the 1980s were resolved in the process of "negotiated decentralization" described above, though it is not yet clear that the traditional institutions will be as successful in bridging the East-West cleavages that have emerged since unification.[66] In Sweden the process is still under way, and while it is

[63] Lash (fn. 10), 218–20; Martin (fn. 13), 82–83; Pontusson and Swenson (fn. 13), 29–35.

[64] Pontusson and Swenson (fn. 13), 41.

[65] Ibid., 17–18; also telephone interview with Åke Nordlander, former president of VF, August 1992.

[66] As of this writing (May 1993), employers and union in the metalworking industries had just resolved a conflict over employer demands for the renegotiation of a previously bargained contract for the East. But the deeper problem in the East is the failure of a significant

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clear that the Swedish model of peak-level negotiations will not be resuscitated, it is not clear at what level the bargaining will be conducted. Part of this will depend on dynamics within the employer associations, where differences of opinion persist—both across sectors, and within industries, between small firms (which favor industry-level bargaining) and large firms (committed to plant-level bargaining).

But if the outcome hinges partly on employer dynamics, it also depends on labor's own strategic responses to the crisis of centralized bargaining. So far, the response of Swedish labor has involved organizational rethinking along the two dimensions highlighted in this analysis, that is, the traditional divisions between central and shop-floor bargaining and between white- and blue-collar representation. In both cases, the general direction of change is toward structures that are closer to those found in Germany.

The key initiative in terms of shop-floor bargaining is the LO's recently adopted program of "solidaristic *work* for solidaristic wages" to replace traditional solidaristic wage policy.[67] One goal of the solidaristic work policy is to link wages to the tasks performed, with higher remuneration for jobs involving higher skills. This in itself would seem to move in the direction of the kind of greater differentials between skilled and less-skilled workers that Swedish employers have been advocating (and that German unions have long accepted). Of course, greater differentials is not the goal Swedish unions have in mind. Instead, they stress the solidaristic dimension to the policy. The idea is that rewarding jobs that require higher skills will produce pressures on the part of workers for higher-skilled, "better" jobs. It would be up to plant labor representatives to push for an equalization of skills, which would then bring with it wage leveling.

While the new policy thus preserves a solidaristic component, the point of departure is quite different from traditional solidaristic wage

number of firms to join the employers' associations, which leaves them outside the system of coordinated bargaining altogether. This is a concern for both the unions and the employers' associations. As a representative of the BDA put it: "On this point we have parallel interests [*gleichgerichtete Interessen*]. We have to make it clear to employers that we are stronger as a collective. And of course that is especially true in the new states"; quoted in *Die Welt*, August 5, 1992.

[67] The following account draws both on 1989 interviews with Ingemar Göransson and other members of the Metall research department that authored the "solidaristic work" proposal and on a presentation by Göransson (himself now at the LO) at an IG Metall workshop on work reorganization in Büdingen, Germany, September 1990. See also the official program in Landsorganisationen i Sverige (LO), *Det utvecklande Arbetet* (Stockholm: LO, 1990), a report prepared for the 1991 LO congress; as well as Rianne Mahon, "From Solidaristic Wages to Solidaristic Work: A Post-Fordist Historic Compromise for Sweden?" *Economic and Industrial Democracy* 12 (August 1991).

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policy. No longer would the central unions be the guardians of solidarity; rather, that task would fall to shop-floor representatives. To the extent that solidaristic work policy relies more heavily on local implementation, it would appear to operate in somewhat the same way as the implementation of the working time agreements in Germany, in which the IG Metall established parameters for local bargaining but had to rely on works councils to fulfill its goal of securing a thirty-five-hour workweek for all workers.[68] Greater local autonomy in the area of plant wage structures will surely dilute the effects of solidaristic wage bargaining, but if recent events are any indication, then some loss of central control over plant outcomes may be the price Swedish unions have to pay for continued coordination at the national level.

As regards bargaining structures above the plant level, recent developments encourage further tentative comparisons with German institutions and practices. Here, part of the change has been imposed by employers directly. For example, dismantling the SAF's bargaining unit has deprived the LO of a national-level negotiating partner, so that the individual industrial unions have necessarily taken over a more important role in negotiations. This in itself resembles Germany's industry-led bargaining, and there are even some signs that the Swedish metalworkers' union is positioning itself to replace the LO in the leading role in wage bargaining, similar to Germany's IG Metall.[69]

In a related trend, some unions have moved to create new cooperative arrangements that could mitigate the historically evolved separation of blue- and white-collar bargaining. In particular, unions in engineering and retail trade have recently taken steps to form bargaining cartels with their white-collar counterparts.[70] The move to coordinate white- and blue-collar bargaining is in part a response to initiatives by some firms (such as ABB) to negotiate local agreements covering all categories of workers (*medarbetareavtal*). Unions are keen to head off any tendencies toward enterprise unionism (involving unified firm-level contracts and local productivity-based wages), and increased cooperation between overarching white- and blue-collar unions is seen as a way of shoring up

[68] Tore Andersson, the negotiations secretary at LO, appears to embrace a new division of labor between central unions and shop stewards when he says: "One way of doing things is through new liberty at the workplace, and we favor that. But it should not be an affair between each individual and his or her employer; [the unions] have to provide guidelines and a framework, though not a detailed agreement with a lot of paragraphs"; interview with Andersson, August 1992.

[69] Interviews, Stockholm, 1992.

[70] *Dagens Nyheter* and *Svenska Dagbladet*, August 12 and 14, 1992; on the general need for greater white- and blue-collar coordination, see also LO, "Samordnade Förbundsförhandlingar" (Report of the LO's Wage and Working Life Project, May 19, 1992), esp. 25–26.

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industry-level structures as a bulwark against full decentralization to the plant level. Even though the cartels fall short of formal mergers, this kind of increased coordination between white- and blue-collar organizations moves closer to the more unified, industry-wide bargaining found in Germany.

Conclusion

There is in the study of labor politics a strong tradition of focusing on national-level institutions, and most studies of the breakdown of centralized bargaining follow this tradition.[71] This essay challenges this convention and resonates instead with the growing chorus of calls for a greater emphasis on subnational structures.[72] Differences in the *relationship* between central unions and various subnational actors help explain cross-national variation in the tensions that dominate labor-capital relations and in the outcome of conflicts over plant flexibility in the 1980s. What matters then is not the strength of labor and capital at the national level per se but the resiliency of the institutional arrangements that link central bargaining to local negotiations and representation.

In the German case the outcome of conflicts over working time reduction was a rebalancing of powers between works councils and central unions, a rebalancing that shored up traditional, industry-level bargaining through the incorporation of new (though bounded) flexibilities at the plant level. This outcome is very different from the Swedish case, where employers essentially decided to go after the whole apparatus of centralized bargaining itself in order to get the flexibility they wanted at the plant level.

To understand these outcomes, it is not necessary to view unions in Sweden as inherently more stubborn than in Germany, or Swedish employers as more ideological.[73] Rather, two institutional factors help explain the course of decentralization in the two countries. First, although central bargaining in both Sweden and Germany involves coordination among various labor organizations, the institutionalized cleavages in the two national labor movements are different. In Germany industry-wide

[71] See, e.g., several of the essays in Goldthorpe (fn. 34).

[72] Miriam Golden and Jonas Pontusson, eds., *Bargaining for Change: Union Politics in North America and Europe* (Ithaca, N.Y.: Cornell University Press, 1992); Richard Locke, "The Resurgence of the Local Union: Industrial Restructuring and Industrial Relations in Italy," *Politics and Society* 18 (September 1990); idem, "The Demise of the National Union in Italy: Lessons for Comparative Industrial Relations Theory," *Industrial and Labor Relations Review* 45 (January 1992); Turner (fn. 21); Thelen (fn. 21).

[73] Martin (fn. 13), chap. 6, for example, emphasizes the ideological component in the attack on centralized bargaining in Sweden.

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bargaining is the rule, with the leadership of IG Metall providing the basis for a degree of coordination. In Sweden the peak confederations had more authority over their industry-level members but other national-level cleavages—especially between blue- and white-collar representation—were reproduced at the plant level in ways that heightened tensions on the labor side and softened resistance in the engineering union to the employers' crucial early break with peak-level bargaining in 1983.

Second, the linkages between central bargaining and shop-floor representation channeled pressures for shop-floor flexibility and structured the conflict over decentralization. In Sweden rigidities in the links between central and plant-level bargaining—associated with the evolution of solidaristic wage policy but also related to a weaker tradition of shop-floor autonomy in Sweden—contributed to employers' rejection of centralized bargaining. The embeddedness of inflationary pressures in the very institutions of bargaining meant that increased flexibility at the plant level would involve significant organizational reconfiguration. In Germany, by contrast, the continued stability of industry-level bargaining in the 1980s was related to the long-standing tradition of strong and independent shop-floor representation, which had been reinforced and expanded in the innovations of the late 1960s and early 1970s. So far, the dual system has successfully "absorbed" new pressures for decentralization, though maintaining central coordination has also involved an explicit extension of flexibility at the plant level.

Since resisting decentralization does not appear to be an option for unions in the 1990s, the question then becomes one of how such decentralization occurs, in particular, whether central unions can retain a strong coordinating role, even though they are no longer in a position to control plant outcomes directly. Wolfgang Streeck has argued that "some systems are more likely than others to permit a negotiated 'orderly retreat' from economically outdated labor market regimes."[74] My contention has been that the retreat from centralization has been more orderly in Germany than in Sweden. I have argued that this outcome is only partly a matter of the overall degree of labor's strength; it is also an issue of how that strength is organized. The metaphor that comes to mind is the difference between a truss bridge and a suspension bridge. While the durability of a truss bridge depends on the sheer strength of the components that hold it up, the strength of a suspension bridge lies in its ability to adapt to changing circumstances by bending with the

[74] Streeck (fn. 3), 62.

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pressure. Peak-level bargaining in Sweden has traditionally been premised on the "truss" principle, that is, on the strength of its main pillars, SAF and LO, and their ability to keep not just each other but also their respective constituencies in line. The German system, by contrast, tends to accord more with the "suspension bridge" principle; that is, its strength lies in its flexibility and capacity to absorb and channel new pressures in ways that sustain the institutions of coordinated, industry-level bargaining even as they transform them.

Finally, at a more theoretical level, this essay has attempted to advance the debate on "historical institutionalism."[75] By now the dictum that "institutions matter" is well established.[76] But while this literature has given us valuable insights into the institutional sources of cross-national diversity in political outcomes, it has been relatively silent on questions of institutional resiliency and breakdown. My analysis of bargaining decentralization in Germany and Sweden confirms the central role played by institutions in mediating political outcomes, but I have also attempted to go beyond a static structural focus, to highlight how changing substantive interests of political actors interact with preexisting institutions to produce distinctive patterns of stability and change. The common trend in the 1980s toward the increasing importance of plant-level flexibility had different effects, depending on the institutions that structured the resulting conflicts over decentralization. Preexisting (but previously "dormant") features of both systems—for example, differences in the organization of white- and blue-collar representation, differences in the division of labor between central and shop-floor bargaining—were thrown into relief in the 1980s.[77] These institutions shaped the goals of both labor and capital in response to new challenges, and structured their strategic interactions in ways that either complicated or encouraged compromise within the existing framework of bargaining.

[75] For an overview and discussion, see Kathleen Thelen and Sven Steinmo, "Historical Institutionalism in Comparative Politics," in Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (New York: Cambridge University Press, 1992).

[76] See, among others, Suzanne Berger, ed., *Organizing Interests in Western Europe* (Cambridge: Cambridge University Press, 1981); John Zysman, *Governments, Markets, and Growth* (Ithaca, N.Y.: Cornell University Press, 1983); Peter Hall, *Governing the Economy* (New York: Oxford University Press, 1986); Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

[77] The logic of this argument bears some similarity to that in Victoria C. Hattam, "Institutions and Political Change: Working-Class Formation in England and the United States, 1820–1896," in Steinmo, Thelen, and Longstreth (fn. 75).

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THE OBSOLESCENCE OF CAPITAL CONTROLS? Economic Management in an Age of Global Markets

By JOHN B. GOODMAN and LOUIS W. PAULY*

THE movement of capital across national borders has long raised sensitive political questions. Whatever the benefits, international investment complicates national economic management. Most research on this subject has focused on the causes and consequences of foreign direct investment. Less studied, but no less important, are short-term capital flows—those arising from the purchase or sale of financial instruments with maturities of less than one year. In contrast to investments in plant and equipment, short-term flows are highly sensitive to interest rate differentials and exchange rate expectations. Indeed, the mere announcement of a change in economic policy can trigger massive capital inflows or outflows, undermining the anticipated benefits of the new policy. For this reason, most governments regularly resorted to various types of controls on short-term capital movements in the decades following World War II.

In recent years, however, the world has witnessed a remarkable shift away from the use of capital controls. In country after country, governments have abolished controls and dismantled the bureaucratic machinery used to administer them. And in the rare instances where governments have fallen back on controls, their temporary nature has usually been emphasized. This general trend toward liberalization has stimulated a growing body of research on the political and economic consequences of capital mobility.[1] In this article, our principal aim is to address

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[1] See, e.g., Jeffry Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45 (Autumn 1991); Michael C. Webb, "International Economic Structures, Government Interests, and the International Co-

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two prior puzzles: First, why did policies of capital decontrol converge across a rising number of industrial states between the late 1970s and the early 1990s? Second, why did some states move to eliminate controls more rapidly than others? We argue that the movement away from controls on short-term capital flows did not result, as regime or epistemic community theories might predict, from the emergence of a common normative framework or widespread belief in the benefits of unfettered capital mobility.[2] Nor has it simply reflected the overarching power of a liberal state. Instead, we contend that it has been driven by fundamental changes in the structures of international production and financial intermediation, which made it easier and more urgent for private firms—specifically, corporations and financial institutions whose aspirations had become increasingly global—effectively to pursue strategies of evasion and exit. For governments, the utility of controls declined as their perceived cost thereby increased.

Still, not all governments abandoned capital controls at the same pace. In order to examine both the process through which these pressures impinged on policy at the national level and variations in the timing of policy reform, we analyze policy developments in four advanced industrial states that relied extensively on capital controls—Japan, Germany, France, and Italy. The first two moved decisively away from capital controls in 1980 and 1981, the latter two, at the end of the decade. These differences can be traced to the interaction between generic types of external pressure and remaining distinctions in domestic structures. Specifically, governments facing capital inflows liberalized sooner than governments facing capital outflows—a conclusion that is not obvious, since capital inflows can be as threatening to national policy-making autonomy as capital outflows. Our analysis at the national level highlights the mechanisms by which such systemic economic pressures were transmitted to unique domestic political arenas. But it also provides a clue as to the increasingly common constraints governments would now have to overcome if they wanted to move back to policies designed to influence and control short-term capital flows.

In theoretical terms, our argument and evidence address a central question in international political economy regarding the relative impor-

ordination of Macroeconomic Adjustment Policies," *International Organization* 45 (Summer 1991); and Donald J. Mathieson and Liliana Rojas-Suarez, "Liberalization of the Capital Account: Experiences and Issues," IMF *Occasional Papers Series* 103 (March 1993).

[2] See Stephen D. Krasner, *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983); and Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization* 46 (Winter 1992).

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tance of, and relationship between, international and domestic variables.[3] In the crucial area of capital flows, the two interact in a clear pattern: global financial structures affect the dynamics of national policy-making by changing and privileging the interests and actions of certain types of firms. Once those interests have been embedded in policy, movement back is not necessarily precluded but is certainly rendered much more difficult.[4]

The rest of this article is divided into four sections. The first section examines the debate over capital controls in the postwar period and shows that the normative conclusion of this debate remained remarkably consistent throughout subsequent decades. The second section analyzes how changes in international financial markets influenced firm behavior and reframed the issue of capital controls for governments. The third section compares the way in which such changes affected government decisions to eliminate controls in Japan and Germany, which confronted problems associated with chronic capital inflows, and in France and Italy, which faced problems associated with capital outflows. Finally, the fourth section explores the conditions under which a retreat from liberal capital policies could occur and speculates on the normative implications of policy convergence witnessed thus far.

Capital Controls in the Postwar Monetary Order

Following World War II, capital controls were an accepted part of the international monetary system. Despite pressure from the United States to allow investment as well as goods to cross borders without governmental interference, the 1944 Bretton Woods agreement intentionally legitimated the imposition of controls on capital movements that were not directly linked to trade flows. The agreement gave the International Monetary Fund (IMF) a mandate to discourage exchange restrictions and other financial impediments to trade but pointedly did not give it jurisdiction over capital controls.[5] Most industrial countries accepted the logic

[3] Three distinct views that have framed much of the subsequent theoretical debate can be found in Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little Brown, 1977); Peter Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial Countries* (Madison: University of Wisconsin Press, 1978); and Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, N.Y.: Cornell University Press, 1986).

[4] Helen Milner has made a compatible argument with regard to trade policy; see Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton: Princeton University Press, 1988).

[5] See Article VI, sections 1 and 3, of the IMF's original Articles of Agreement. John Maynard Keynes, the chief British spokesman at the Bretton Woods conference and the chief opponent of the American view, bluntly explained this to Parliament:

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of restoring currency convertibility but jealously guarded their right to control short-term capital flows.

In 1961 member states of the Organization for Economic Cooperation and Development (OECD) formally agreed in the Code of Liberalization of Capital Movements to "progressively abolish between one another" restrictions on capital movements "to the extent necessary for effective economic cooperation." However, the code left significant scope for states to make exceptions for certain types of capital transfers and, more broadly, to take any actions necessary for the "maintenance of public order or . . . the protection of essential security interests" *as defined by the member states themselves*. States were also permitted to derogate from their obligations under the code in the event of payments imbalances that *they* themselves considered severe.[6] As this loosely defined set of exceptions made clear, OECD member states retained the right to reimpose controls whenever conditions warranted. The reason they attached such importance to that right quickly became apparent.

Facing persistent payments imbalances and problematic exchange rate rigidities in the 1960s, virtually all leading industrial states resorted to some type of control on capital movements. Even the United States adopted controls to prevent "disequilibrating" outflows.[7] Similar controls were put in place by other states with external deficits, while states with external surpluses adopted measures to ward off unwelcome capital inflows. Ironically, these controls gave a boost to incipient "offshore" financial markets in Europe and elsewhere. The subsequent growth of Euro-currency banking, bond, and equity markets reflected a number of factors—including the unwillingness of governments to coordinate their associated regulatory and tax policies and the development of new technologies.[8] (See Table 1).

> Not merely as a feature of the transition, but as a permanent arrangement, the plan accords to every member government the explicit right to control all capital movements. What used to be heresy is now endorsed as orthodox. . . . It follows that our right to control the domestic capital market is secured on firmer foundations than ever before, and is formally accepted as a proper part of agreed international agreements.

Quoted in Joseph Gold, "International Capital Movements under the Law of the International Monetary Fund," IMF *Pamphlet Series* 21 (1977), 11.

[6] OECD, *Code of Liberalization of Capital Movements* (Paris: OECD, October 1986), articles 1, 3, 7.

[7] See John Conybeare, *U.S. Foreign Economic Policy and the International Capital Markets: The Case of Capital Export Controls, 1963–74* (New York: Garland, 1988). For relevant background, see Alec Cairncross, *Control of Long-Term International Capital Movements* (Washington, D.C.: Brookings Institution, 1973); and Alexandre Lamfalussy, "Changing Attitudes towards Capital Movements," in *Changing Perceptions of Economic Policy: Essays in Honor of the 70th Birthday of Sir Alec Cairncross* (London: Methuen, 1981).

[8] A separate article could, of course, easily be devoted to an examination of the most prominent explanations for the explosive development of the international capital markets in the

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TABLE 1
INTERNATIONAL FINANCIAL TRANSACTIONS
(U.S. $ BILLIONS)

	1978	*1980*	*1982*	*1984*	*1986*	*1988*	*1989*	*1990*	*1991*
International bank lending (net stocks)	530	810	1,020	1,285	1,790	2,380	2,640	3,350	3,610
International bond financing (net stocks)	NA	NA	NA	390	700	1,085	1,252	1,473	1,651
Net international bond issues (net flows)	29	28	58	90	163	144	166	122	163
Euro-commercial paper outstanding	NA	NA	NA	NA	14	53	59	70	80
Gross internatonal equity flows	NA	NA	NA	NA	801	1,213	1,598	1,441	825

SOURCES: Bank for International Settlements, *Annual Reports* (various issues); International Monetary Fund, *International Capital Markets: Developments and Prospects* (1992).

The disintegration in the early 1970s of the Bretton Woods system of pegged exchange rates potentially opened the door for a new normative framework to coordinate efforts to influence international capital flows. An intergovernmental forum on international monetary reform, the Committee of Twenty of the IMF board of governors was established in 1972, and a group of technical experts was appointed by the committee to examine the problem of disequilibrating capital flows. They concluded that controls should not become a permanent feature of a reformed system because of their potentially negative impact on trade and investment flows. But since capital flows could continue to disrupt even a more flexible exchange rate arrangement, they recommended the adoption of a code of conduct monitored by the IMF to govern the future use of controls. In the end, however, their recommendation was not pursued by the committee.

When the IMF Articles of Agreement were finally amended in 1976 to accommodate floating exchange rates, the normative framework guiding international capital movements originally articulated at Bretton Woods remained intact. States retained the right to resort to controls at their own discretion. In sum, at the official level, neither the beliefs concerning capital controls nor the rules governing them changed significantly over the postwar period. The forces behind the wave of policy liberalization that was about to occur were located elsewhere.

Global Finance and Firm Behavior

Between the late 1970s and the early 1990s, the development of truly international financial markets and the globalization of production undercut the rationale for capital controls. To analyze how these changes affected policies designed to limit capital mobility, it is useful to begin by looking at why such policies were deemed necessary in the first place. In the early 1960s strong theoretical support for the use of capital controls was provided by J. Marcus Fleming and Robert Mundell, who demonstrated that a government could achieve at most two of the following three conditions: capital mobility, monetary autonomy, and a fixed ex-

1960s. For purposes of analyzing subsequent decisions to remove capital controls, the growth of the Euro-markets is treated as exogenous. For background, see Richard O'Brien, *Global Financial Integration* (London: Pinter, 1992); Ralph Bryant, *International Financial Intermediation* (Washington, D.C.: Brookings Institution, 1987); Susan Strange, *Casino Capitalism* (London: Basil Blackwell, 1986); John S. Odell, *U.S. International Monetary Policy* (Princeton: Princeton University Press, 1982); and Benjamin J. Cohen, *Organizing the World's Money* (New York: Basic Books, 1977).

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change rate.[9] Consider what happens when a government decides to tighten monetary policy and maintain a constant exchange rate. Without capital mobility, the rise in interest rates will simply reduce aggregate demand. With capital mobility, such autonomy is lost, as funds attracted from abroad drive interest rates back down to world levels. A decision to loosen monetary policy would have the opposite effect.[10] Of course, few countries have ever sought to insulate themselves completely from capital inflows or outflows. But throughout the postwar period, many did seek to limit the volume of those flows and thus preserve a degree of autonomy.

During the 1960s a growing number of economists argued that a preferable way to preserve national monetary autonomy was to abandon fixed exchange rates. With flexible exchange rates, a decision to tighten monetary policy might still attract capital, but its principal effect would be on the value of the national currency, not domestic interest rates. In this light, Harry Johnson explained, flexible exchange rates would "allow countries autonomy with respect to their use of monetary, fiscal, and other policy instruments, consistent with the maintenance of whatever degree of freedom in international transactions they choose to allow their citizens."[11]

In practice, the shift to flexible exchange rates in the 1970s did not provide the desired panacea. The Mundell-Fleming analysis (upon which Johnson's recommendation was based) ignored feedback effects between exchange rates and domestic prices. As predicted, a country that sought to stimulate production by lowering interest rates suffered a depreciation of its currency. This depreciation, in turn, raised the price of its imports. If the country could not reduce imports quickly, higher import costs translated into higher prices for domestic production, thereby reducing the anticipated increase in output.[12] Despite the shift to floating

[9] See Fleming, "Domestic Financial Policies under Fixed and Floating Exchange Rates," IMF *Staff Papers* 9 (1962); Mundell, "The Monetary Dynamics of International Adjustment under Fixed and Flexible Exchange Rates," *Quarterly Journal of Economics* 74 (May 1960); and idem, "Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates," *Canadian Journal of Economics and Political Science* 29 (November 1963).

[10] The Mundell-Fleming conclusion that a government has no control over monetary policy under such conditions depends on the assumption that sterilization does not or cannot occur. Evaluating the effectiveness of sterilization is a complicated matter. See Michael Goldstein, *Have Flexible Exchange Rates Handicapped Monetary Policy?* Special Papers on International Economics, no. 14 (Princeton: Princeton University, International Finance Section, 1980), 36–38.

[11] Harry G. Johnson, "The Case for Flexible Exchange Rates, 1969," in Robert E. Baldwin and J. David Richardson, eds., *International Trade and Finance* (Boston: Little, Brown, 1974), 367–68.

[12] See W. M. Corden, *Inflation, Exchange Rates, and the World Economy: Lectures on Inter-*

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rates, many countries therefore still considered capital controls necessary to carve out as much autonomy as possible for their monetary policies.

In the 1970s and 1980s, however, two developments dramatically reduced the usefulness of capital controls. The first was the transformation and rapid growth of international financial markets. Between 1972 and 1985, for example, the size of the international banking market increased at a compound growth rate of 21.4 percent, compared with compound annual growth rates of 10.9 percent for world gross domestic product and 12.7 percent for world trade.[13] Moreover, just as this pool of funds increased in size, technological changes reduced the time it took to transfer funds across borders. Since the early 1970s the daily turnover on the world's exchange markets has risen tremendously. In the midst of the currency crisis in March 1973, $3 billion were converted into European currencies in one day. In the late 1970s, daily turnover around the world was estimated at $100 billion; a decade later, that figure had reached $650 billion.[14]

Just as these changes were occurring, a related development was taking place—an increasing number of businesses were moving toward a global configuration.[15] Multinational enterprises (MNEs) were, of course, not new. What was new was the growth in their number, from just a few hundred in the early 1970s to well over a thousand in 1990. Moreover, for more and more MNEs, the home base was outside the United States. Globalization was also evident in the rapid growth of foreign direct investment. During the latter half of the 1980s, for example, flows of new FDI rose at an annual rate of 29 percent.[16] According to one recent study, more than $3.5 trillion of business assets came under "foreign control" in the 1980s.[17]

These twin changes had dramatic consequences for the use of capital controls. Most importantly, the expansion of financial markets made it progressively easier for private firms whose operations had become increasingly global to adopt strategies of exit and evasion. Evasion had obviously taken place for decades, but the means by which it could be

national Monetary Economics, 2d ed. (Chicago: University of Chicago Press, 1980), chaps. 4–6.

[13] Bryant (fn. 8), 22.

[14] John B. Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca, N.Y.: Cornell University Press, 1992), 18.

[15] See David B. Yoffie, *Beyond Free Trade: Governments, Firms, and Global Competition* (Boston: Harvard Business School Press, 1993).

[16] De Anne Julius, *Global Companies and Public Policy: The Growing Challenge of Foreign Direct Investment* (New York: Council on Foreign Relations, 1990).

[17] Edward M. Graham, "The Determinants of Foreign Direct Investment: Alternative Theories and International Evidence" (Manuscript, Institute for International Economics, Washington, D.C., October 15, 1991.)

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conducted were now multiplied. Multinational structures enabled firms to evade capital controls by changing transfer prices or the timing of payments to or from foreign subsidiaries. The deepening of financial markets meant that firms could use subsidiaries to raise or lend funds on foreign markets. If controls in a country became too onerous, MNEs could also attempt to escape them altogether by transferring activities abroad, that is, by exercising the exit option.[18]

This possibility, in turn, constrained the choices available to governments. Assume that a government maintains a more expansionary monetary policy than the rest of the world in order to stimulate growth and create jobs. Assume further that it recognizes that higher interest rates abroad are likely to attract domestic savings needed to finance domestic investment, and it therefore imposes controls on capital outflows. If MNEs react to these controls by moving certain operations offshore, the domestic savings base essentially shrinks. In this instance, the country finds itself in a worse position than when it started.[19] Clearly, if a government can anticipate this effect, credible threats of exit would deter the imposition of capital controls. To the extent that such threats are indeed credible, they highlight the deepening interrelationship between short-term and long-term investment flows. A government that is truly serious about restricting short-term capital movements would also have to be prepared to restrict offshore direct investments by domestic firms. It would then have to balance the losses (in terms of efficiency) borne by those firms and the national economy against the anticipated benefits of capital controls.[20]

[18] Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge: Harvard University Press, 1970); for a more recent argument regarding the effects of mobility of investment on public policy, see Robert Reich, "Who Is Us?" *Harvard Business Review* 48 (January–February 1990).

[19] In conceptual terms, the burden of capital controls falls most heavily upon fixed factors of production. Thus, labor, presumably one of the intended beneficiaries of expansionary policies that necessitate capital controls, might ultimately pay the heaviest cost.

[20] The link between controls on short- and long-term flows depends upon the mobility of savings and investment. For any country, aggregate savings and investment must ultimately be equal. Imposing capital controls has the effect of reducing savings and therefore investment. The extent to which investment declines depends upon the mobility of production. If production is mobile, a drop in savings will lead to a parallel decline in investment. If production is immobile, then companies will pay higher interest rates to attract available savings. Investment will decline, but by a lesser amount. On the mobility of savings and investment, see Martin Feldstein and Charles Horioka, "Domestic Savings and International Capital Flows," *Economic Journal* 90 (June 1980); Martin Feldstein, "Domestic Savings and International Capital Movements in the Long Run and the Short Run," *European Economic Review* 21 (1983); Tamim Bayoumi, "Savings-Investment Correlations: Immobile Capital, Government Policy, or Endogenous Behavior," IMF *Staff Papers* 37 (July 1990); and IMF staff, "Determinants and Systemic Consequences of International Capital Flows," IMF *Occasional Paper Series* 77 (March 1991).

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From the perspective of firms, however, neither evasion nor exit is a costless option. Firms surely prefer to avoid capital controls or to have them removed, rather than having to consider either option. Thus, MNEs and financial institutions might be expected to mobilize against controls and promote policies encouraging international capital mobility.[21] Governments concerned with the issue of national competitiveness might be expected to be especially responsive to such entreaties. They might also be expected to press other governments to liberalize.

Government decisions to abandon capital controls during the 1980s reflected fundamental changes in the markets through which capital could flow. In our examination of specific decisions in the cases of Japan, Germany, France, and Italy, we provide examples of how these changes affected decision-making processes. Not surprisingly, indisputable evidence of evasion and exit on the part of firms is difficult to find—the former because firms have little interest in making apparent their use of loopholes; the latter because it involves, in essence, a kind of structural power. It need not be exercised to have effect.[22] What comes out clearly, however, is the perception by national policymakers that capital controls had become less useful and more costly.

Although similar pressures affected all advanced industrial countries, the speed with which specific governments responded depended upon whether they were experiencing capital inflows or outflows. The four countries we examine in the next section provide examples of each. Japan and Germany, typically recording surpluses in their current accounts and experiencing capital inflows, liberalized in 1980–81. France and Italy, typically recording external deficits and experiencing capital outflows, did not abandon capital controls until the end of the decade. This difference in timing should not be exaggerated, but neither should it be overlooked, for it helps to clarify the way in which the pressures discussed above shaped the development of particular national policies.

Countries that sought to control capital inflows faced different incentives from those facing countries that sought to control capital outflows. The reason lies mainly in the asymmetric impact of capital movements on foreign exchange reserves. Current account deficits, capital outflows, weakening exchange rates, and depleting reserves often go together; when they do, governments must either adjust their policies or adopt

[21] See Frieden (fn. 1).

[22] On the structural power of business, see Charles Lindblom, *Politics and Markets: The World's Political and Economic Systems* (New York: Basic Books, 1977); and John Stopford and Susan Strange, *Rival States, Rival Firms: Competition for World Market Shares* (Cambridge: Cambridge University Press, 1991).

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controls before the loss of reserves is complete. In contrast, governments facing the obverse situation find it easier to abandon controls since their reserve position is not threatened. This asymmetry can be enhanced for deficit countries committed to maintaining a fixed exchange rate, as was the case for France and Italy in the context of the European Monetary System (EMS).

The Four Cases

Germany

DEVELOPMENT OF CONTROLS

In the early years of the Federal Republic, current account deficits and a dearth of foreign exchange reserves led to a strict prohibition on all exports of capital by residents. The legal basis for these controls was provided in the foreign exchange regulations of the Allied Occupation. By the early 1950s, however, West Germany's current account turned to surplus and the country's war-related external debts were finally settled. Restrictions on foreign direct investment abroad began to be liberalized in 1952, and residents were allowed to purchase foreign securities in 1956. By 1957 export of capital by residents was generally permitted without authorization. The relaxation of controls on outflows was effectively completed following restoration of currency convertibility in 1958, a policy stance legally enshrined in the Foreign Trade and Payments Act of 1961.[23]

Owing largely to structural pressures on the deutsche mark in the Bretton Woods system of pegged exchange rates, however, this liberalization was not matched by similar progress on capital inflows. These pressures first emerged in the mid-1950s, when West Germany's low inflation rate and growing current account surplus increased the attractiveness of the mark relative to other currencies, notably the dollar. Under the Bretton Woods rules, the Bundesbank was required to enter the foreign exchange market and sell marks whenever the intervention point with the dollar was reached. But, of course, such obligatory purchases served to increase liquidity in the banking system and expand the money supply, thus creating inflation. Capital inflows therefore quickly came to be seen as significant threats to the Bundesbank's goal of maintaining price stability. Periodic expectations of revaluation and the resulting in-

[23] Deutsche Bundesbank, "Freedom of Germany's Capital Transactions with Foreign Countries," *Monthly Report of the Deutsche Bundesbank* 37 (July 1985), 16–17.

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crease in speculative capital inflows dramatically underlined the dilemma.[24]

In this situation, Germany essentially had two options as it struggled to maintain control over its domestic money supply. It could either revalue its currency or impose capital controls. Given the strong opposition of export interests to revaluation, transmitted in the subtle interplay between the government (which had responsibility for exchange rate policy) and the Bundesbank, the central bank's inclination tended in the latter direction.[25] In June 1960, for example, the purchase of domestic money market paper by nonresidents was subjected to an authorization requirement. Simultaneously, a ban was imposed on interest payments on bank deposits held by nonresidents. These restrictions remained in place after the mark was revalued in 1961 and were not removed until the second revaluation in October 1969. Controls were reintroduced, however, when pressure once again mounted against the mark in 1971. The following year, the Bundesbank required 40 percent of all loans raised abroad to be placed in non-interest-bearing accounts. It also extended authorization requirements to the purchase of domestic bonds by nonresidents.[26] Capital nevertheless continued to pour into Germany and ultimately necessitated two revaluations. Faced with massive speculative pressures in early 1973, the mark was finally allowed to float.

The transition to floating initially eased many of the pressures on the currency; the Bundesbank therefore began loosening some of its earlier restrictions but not dismantling its control apparatus altogether. Indeed, when confidence in the dollar began to decline in 1977, the Bundesbank again tightened existing capital controls and raised minimum reserve requirements on nonresidents' bank deposits to prevent what it considered an excessive appreciation of the mark. These measures were eased somewhat in 1978, when a shift in U.S. economic policy reduced inflows from abroad.[27]

[24] On the problems of capital inflows and imported inflation, see Otmar Emminger, *The D-Mark in the Conflict between Internal and External Equilibrium, 1948–1975*, Princeton Studies in International Finance, no. 122 (Princeton: Princeton University, International Finance Section, 1977); and William Pollard Wadbrook, *West German Balance-of-Payments Policy: The Prelude to European Monetary Integration* (New York: Praeger, 1972).

[25] Michael Kreile, "West Germany: The Dynamics of Expansion," in Katzenstein (fn. 3), 213; and Ellen Kennedy, *The Bundesbank: Germany's Central Bank in the International Monetary System* (London: Chatham House, 1991).

[26] Deutsche Bundesbank (fn. 23), 17.

[27] For a thorough analysis of domestic policy decisions and international economic developments in 1977 and 1978, see Robert D. Putnam and C. Randall Henning, "The Bonn Summit of 1978: A Case Study in Coordination," in Richard N. Cooper et al., *Can Nations Agree? Issues in International Economic Cooperation* (Washington, D.C.: Brookings Institution, 1989).

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In the wake of the second oil shock, the German current account moved sharply into an uncharacteristic deficit position. A surplus of DM 17.5 billion in 1978 became a deficit of DM 10.5 billion in 1979 (see Figure 1). Capital inflows suddenly dried up; indeed, capital began exiting the country. The value of the mark slid, and the Bundesbank was forced to finance the deficit first by borrowing and then by dipping into its reserves, which fell by DM 8 billion in 1980 alone.[28] Faced with the novel need to attract rather than ward off capital, the Bundesbank lifted remaining controls on capital flows in 1981.

REASONS FOR LIBERALIZATION

The sudden lifting of controls in 1981 was certainly triggered by a shift in Germany's external accounts. What is striking, however, is that the Bundesbank did not consider it necessary to reimpose capital controls when the current account returned to surplus in 1982 or when the mark once again began to appreciate after the Plaza Agreement in 1985. The reasons for this policy turnaround are several.

Official views on the deutsche mark clearly underwent a dramatic

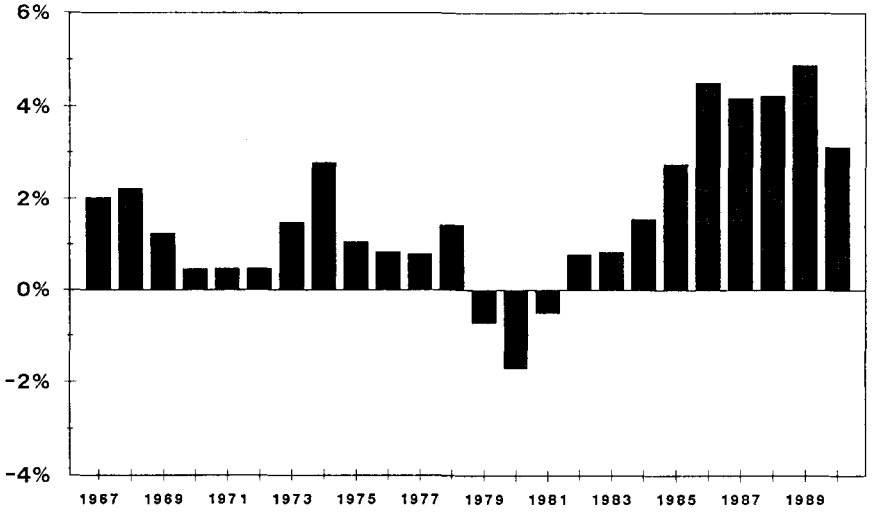

FIGURE 1
CURRENT ACCOUNT AS A PERCENTAGE OF GDP
(GERMANY)
SOURCE: IMF, *International Financial Statistics* (various years).

[28] Deutsche Bundesbank, *Report for the Year 1980*, 18–28.

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change in the early 1980s. Throughout the 1960s and 1970s, the Bundesbank had, in effect, sought to prevent the mark from becoming a reserve currency largely to protect its ability to conduct an autonomous monetary policy and to deflect pressures for revaluation.[29] Yet by 1983 the Bundesbank had reluctantly accepted the mark's increasing role in the world economy. Financial openness was seen to promise benefits; in 1986 the central bank would even boast that Germany "definitely maintained its international position as a financial center."[30]

The rapid transformation in the Bundesbank's perspective reflected the changing interests of German banks. By the early 1980s, the large West German banks had become extensively involved in external markets. Their international assets (loans), for example, rose from $6.7 billion in 1973 to $73.3 billion in 1980 and $191 billion in 1985. With such rapidly rising international assets subject to world interest rates, banks became concerned about retaining a similar flexibility on the deposit side. In other words, changes on one side of bank balance sheets required similar changes on the other.[31] Henceforth, the ability of German banks to compete abroad would depend increasingly upon the free movement of capital.

Deregulatory developments in Britain deepened such concerns; so too did policy changes further afield. In 1984, for example, the United States and Japan concluded a bilateral agreement aimed at facilitating the access of American financial firms to the Tokyo markets.[32] West German banks feared that this agreement would forever lock them out of Japan unless their government stopped waiting for multilateral liberalization and began to negotiate a similar bilateral deal. The reciprocity provision built into the subsequent German-Japanese discussions of the management of securities issues in one another's markets underlined the new complexities that would have to be addressed if a unilateral movement toward closure were ever again contemplated.[33]

More subtle pressures on official policies also emanated from changing corporate strategies. In the 1970s and 1980s German companies became increasingly multinational and directed larger volumes of their investment overseas. Reflecting this evolution, German foreign direct investment in foreign markets rose from DM 3.2 billion in 1970 to DM 7.6

[29] Emminger (fn. 24).
[30] Deutsche Bundesbank, *Annual Report for the Year 1985*, 50–53.
[31] We are indebted to Louis Wells for clarification on this point.
[32] See Louis W. Pauly, "Regulatory Politics in Japan: The Case of Foreign Banking," *East Asia Papers*, no. 45 (Ithaca, N.Y.: Cornell East Asia Program, 1987), 47–61.
[33] *Economist*, February 2, 1985, p. 69.

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billion in 1980 and DM 14.1 billion in 1985.[34] The growing internationalization of German business strengthened resistance to the reimposition of capital controls.

In the same vein, financial institutions, which had adapted well to the restrictiveness of the German capital market in the early years of the Federal Republic, gradually became willing to threaten the exit option. The decision, for example, by the Deutsche Bank to buy 5 percent of Morgan Grenfell and move its international capital market operations to London provided the West German authorities with a clear signal that something had to be done to prevent international business from gravitating away from Frankfurt to London. The Deutsche Bank, after all, was not just any bank. It dominated the German capital market, led nearly half of all new mark-denominated Eurobond issues, underwrote 90 percent of new West German equity issues, and accounted for nearly one-quarter of all trading in German securities.[35] More generally, since the strength of the major German banks had long been viewed by policymakers as critical to the health of the country's leading industries—for which they served as lenders, shareholders, and advisers—the liberalization of their domestic base quickly became an important goal of policy.[36] The subsequent renewal of integration efforts in the European Community, including adoption of the 1992 program and initial planning for monetary union, accelerated policy efforts to expand "Finanzplatz Deutschland."

By the opening of the 1990s, the desire to see Frankfurt more deeply integrated into global financial markets had overwhelmed residual concerns about the implications of capital decontrol. The perennial issue of enhancing the competitiveness of German industry would be advanced by other means, including the expansion of production facilities outside the Federal Republic. The massive financial challenges posed by unification only reinforced the policy movement away from controls. The inflows that had proved so problematic in earlier decades were now deliberately encouraged.

Japan

Development of controls

As in Germany, the priority of economic reconstruction in Japan during the immediate years after World War II entailed tight official controls

[34] Julius (fn. 16), 119.
[35] Ibid.
[36] Christopher S. Allen, "Domestic Politics and Private Investment: Financial Regulation in West Germany and the United States," *Research Reports*, no. 2 (Washington, D.C.: American Institute for Contemporary German Studies, 1990).

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over both inflows and outflows of short-term capital. The policy was put into place during the early days of the occupation and eventually drew its legal justification from the Foreign Exchange and Foreign Trade Control Law of 1949. In principle, all cross-border flows were forbidden unless specifically authorized by administrative decree. Only in the early 1960s did these arrangements begin to loosen, and then only for certain flows closely related to trade transactions. By 1964 this limited liberalization was enough to qualify Japan for Article VIII status in the IMF and for entry into the OECD.

Notwithstanding the first tentative moves toward financial openness, much publicized at the time, an extremely tight regime of controls over most capital movements remained. To be sure, certain inflows of hard currency, mainly U.S. dollars in the form of portfolio investment and foreign currency loans from American banks, were welcomed, but outflows and direct investment inflows were rigorously discouraged. The rationale for this policy stance was obvious. Even twenty years after the war, the country had no foreign currency reserves and was pursuing an ambitious strategy of indigenous industrial development. In effect, the policy amounted to husbanding and rationing scarce national resources. With an export-oriented economic growth strategy in place, the direct beneficiaries of the policy were leading industries selling their products in external markets. Financing was channeled to them mainly through highly regulated banks. Capital controls were key elements in a complex, but bureaucratically organized and directed financial system.[37] In view of its own overarching foreign policy interests, the United States, the only possible challenger to this arrangement, willingly acquiesced.

A string of current account surpluses began to generate increasing volumes of reserves in the early 1970s, and corporate as well as official interest began to shift in the face of impending resource scarcities, domestic environmental problems, and the rise of trade barriers in several foreign markets.[38] Restraints on capital outflows consequently started to loosen, but short-term capital inflows continued to be discouraged through a variety of measures. Strict new limitations, for example, were placed on new foreign currency loans. The goal was to counter the need for an upward revaluation of the yen and thereby to protect the competitiveness of the export sector.[39]

[37] For institutional background and comparative assessment, see Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); and Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca, N.Y.: Cornell University Press, 1987).

[38] By 1973 reserves had reached U.S. $12 billion. Bank of Japan, *Economic Statistics Annual* (1984), Table 135.

[39] James Horne, *Japan's Financial Markets* (Sydney: George Allen and Unwin, 1985), 145

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With the international monetary crisis of 1971, the subsequent pressure on the yen, and the first oil shock in 1973, the policy environment turned upside down. For three years, Japan registered deficits in its current account (see Figure 2). Controls were quickly eased on short-term inflows and tightened on outflows, particularly those occurring through the overseas networks of Japanese banks.[40] When the situation improved in 1976, and current account surpluses returned, the controls on outflows gradually came off again, but several new controls on short-term inflows were put in place for the familiar purpose of countering upward pressure on the yen. In 1979 a second oil price shock reversed the current account balance, this time for two years. But new controls on outflows were now surprisingly limited. By then, Japanese money markets had become more deeply integrated with international markets, and stabilizing inflows

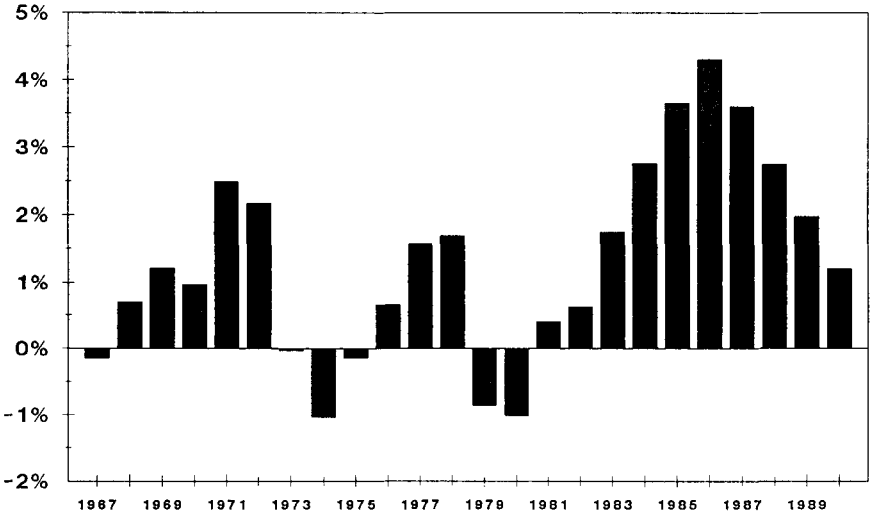

FIGURE 2
CURRENT ACCOUNT AS A PERCENTAGE OF GDP
(JAPAN)
SOURCE: IMF, *International Financial Statistics* (various years).

and Appendix 1. For a detailed discussion of the domestic struggle against revaluation, see Robert C. Angel, *Explaining Economic Policy Failure: Japan in the 1969–71 International Monetary Crisis* (New York: Columbia University Press, 1991). On the sensitivity of the exchange rate question, see also C. Randall Henning, "Finance, Industry, and External Monetary Policy" (Manuscript, Institute for International Economics, Washington, D.C., September 1991).

[40] Frances McCall Rosenbluth, *Financial Politics in Contemporary Japan* (Ithaca, N.Y.: Cornell University Press, 1989), 55. Note that the pattern repeated itself in 1979.

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more than matched outflows. Instead of being concerned that the new crisis would hurt the value of their investments in Japan, international investors, including OPEC governments, now focused on the underlying strength of the economy, and funds poured into the country.

REASONS FOR LIBERALIZATION

Having contributed to tensions in its economic relations with the United States and Western Europe in the early 1970s and again in 1976, exchange rate issues were in the background in 1979 when the Ministry of Finance announced its intention to initiate a major liberalization program to cover inward as well as outward capital movements. The relative ease with which the economy was adjusting to the second oil crisis provided a permissive policy context for this shift. In 1980 it was codified in a new Foreign Exchange and Foreign Trade Control Law, which replaced the concept of capital flow interdiction with the concept of automaticity-in-principle.[41]

It is no coincidence that such a regime was put into place at a time when remarkable changes were under way in the international direct investment strategies of Japanese firms. After decades of slight involvement abroad, Japanese FDI went into a period of explosive growth. Comparable to volumes recorded throughout the late 1960s and early 1970s, net long-term capital movements from Japan totaled U.S. $3.1 billion in 1977. In 1978 that number jumped to $12.4 billion, or 1.5 percent of Japan's GNP. By 1986 it had reached $132.1 billion, or 6.7 percent of GNP.[42] In the face of these flows, and the options of evasion and exit that they implied for externally oriented Japanese firms, the control regime originally enshrined in law in 1949 had outlived its usefulness.

Although the new law did not limit the government's formal capacity to intervene in Japanese financial markets, in practice a policy of decontrol was aggressively pursued.[43] The apparatus for controlling capital movements was dismantled, a policy reinforced by parallel moves to free

[41] See Michele Schmiegelow, "The Reform of Japan's Foreign Exchange and Foreign Trade Control Law: A Case of Qualitative Economic Policy," in Schmiegelow, ed., *Japan's Response to Crisis and Change in the World Economy* (Armonk, N.Y.: M. E. Sharpe, 1986).

[42] Bank of Japan, *Balance of Payments Monthly*, and Ministry of Finance, *Monthly Finance Review*, cited in Edward J. Lincoln, *Japan: Facing Economic Maturity* (Washington, D.C.: Brookings Institution, 1988), 248.

[43] Note that insurance against the perceived negative consequences of too-rapid decontrol was provided in various ways, including the retention of "notice" requirements tailored to particular types of transactions, an insistence that capital outflows take place through "designated financial institutions" (two hundred domestic as well as foreign financial institutions resident in Japan), impediments to overseas investments by individuals resident in Japan, and graduated implementation timetables. Such techniques promised simultaneously to deflect foreign criticism and to allow time for domestic institutional adjustments to occur.

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up gradually the operations of both domestic and foreign financial intermediaries. Although external pressures from private markets and foreign governments may have hastened the overt pace of change in each area, it is worth noting that foreign financial interests were far from unanimous in welcoming this shift. Foreign banks long established in Japan, for example, benefited materially from the earlier regime.[44]

It is clear, however, that well-positioned Japanese intermediaries had the most to gain from the deepening of domestic capital markets promised by the twin policies of decontrol and deregulation, while Japanese manufacturing and financial firms overseas benefited to the extent that such policies defended their positions in foreign markets. In the mid-1960s Japan's cross-border banking business was mainly related to trade flows, and the Bank of Tokyo, the officially designated international bank, accounted for most of the fifty Japanese branches abroad. Twenty years later all of the major banks, as well as many smaller intermediaries, maintained physical networks overseas, comprising over two hundred branches and subsidiaries and three hundred representative offices. Japanese securities companies and insurance vendors followed the banks in major international expansions. Japanese intermediaries and some of their foreign rivals formed the institutional infrastructure for Euro-yen markets, whose development received a boost from the so-called yen-dollar negotiations that the United States and Japan concluded in 1984. Thereafter, it would become much more difficult to prevent the yen from evolving into a major international reserve currency.[45]

By the early 1980s Japan was on the way to becoming the world's largest creditor. In practical terms, this meant that Japanese financial institutions began to play an increasingly important role in overseas capital markets[46]—a development that expanded the range of arbitrage (or

[44] Louis W. Pauly, *Opening Financial Markets: Banking Politics on the Pacific Rim* (Ithaca, N.Y.: Cornell University Press, 1988), chap. 4.

[45] The causal importance of foreign governmental pressure is not easy to gauge. The U.S. government has not been shy about claiming credit for liberalization moves by Japan. For its own reasons, not the least of which is undoubtedly to shift the blame for moves that have not been universally popular at the domestic level, the Japanese government has often been willing to go along with this assessment. Astute observers have argued that liberalization is, in truth, unlikely in the absence of a sufficiently well developed domestic consensus but that foreign pressure can sometimes help nudge that consensus along. See Kent E. Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State," *World Politics* 40 (July 1988). On the changing balance between the government and the private sector, see T. J. Pempel, "The Unbundling of Japan, Inc.: Changing Dynamics of Japanese Policy Formation," *Journal of Japanese Studies* 13 (Summer 1987); and Richard Samuels, *The Business of the Japanese State* (Ithaca, N.Y.: Cornell University Press, 1987).

[46] An indication of the underlying trend is provided in a bilateral Japan/U.S. comparison. In 1985 Japanese intermediaries in the United States accounted for assets totaling U.S. $178 billion; by the end of 1989 that figure had increased to $421 billion. In contrast, U.S. inter-

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"exit") opportunities for Japanese investors and borrowers and complicated the problem of economic management for the Japanese government.[47] After Sumitomo Bank purchased a majority interest in the Swiss universal bank Banco del Gottardo, for example, it became exceptionally difficult for the Ministry of Finance to keep the Eurobond market separate from the Japanese domestic market, since major Sumitomo clients could henceforth raise funds more easily in either market.[48]

The private pressure for increased openness thereby generated was matched during much of the 1980s by the effects of rising public sector indebtedness, which further encouraged the deepening of domestic debt markets.[49] Even without the added pressure coming from foreign governmental demands for decontrol, by 1990 high volumes of inward as well as outward capital flows translated into a broadening domestic political base for progressive financial liberalization and capital decontrol.[50] Although countervailing domestic pressures emerged as inward flows pushed up the exchange value of the yen, the authorities now attempted to manage them more generally through the medium of interest rates and more directly through selective policies of compensation.[51]

At the firm level, foreign direct investment was an obvious and increasingly used method for coping with a rising yen. Indeed, such a consideration has been widely cited as an explanation for the rapid pace of growth in Japanese FDI in the 1980s. From a base of U.S. $2.4 billion in 1980, direct investment outflows from Japan increased to $6 billion in

mediaries in Japan accounted for assets of $18.6 billion in 1985 and $18.8 billion in 1989. U.S. Department of the Treasury, *National Treatment Study* (Washington, D.C.: Department of the Treasury, 1990), 208.

[47] Note that the overseas bond activity of Japanese companies rose from ¥806.7 billion in 1980 to ¥5.3 trillion in 1988. Tokyo Stock Exchange statistics cited in James K. Jackson, "Foreign Access to Japan's Capital Markets," in U.S. Congress, Joint Economic Committee, *Japan's Economic Challenge* (Washington, D.C.: GPO, 1990), 152.

[48] Rosenbluth (fn. 40), 156.

[49] By the mid-1980s central government debt totaled 42% of GNP; the comparable ratio for the United States was 45%. See Bank of Japan-Money Market Study Group, "Japan's Short-Term Money Market and Its Issues" (Mimeo, Bank of Japan, June 8, 1990); and Yoichi Shinkai, "The Internationalization of Finance in Japan," in Takashi Inoguchi and Daniel Okimoto, eds., *The Political Economy of Japan: The Changing International Context* (Stanford, Calif.: Stanford University Press, 1988), 251.

[50] Note, however, the persistent lag with regard to direct investment inflows, especially those connected with acquisitions of existing assets. See Dennis J. Encarnation and Mark Mason, "Neither MITI nor America: The Political Economy of Capital Liberalization in Japan," *International Organization* 44 (Winter 1990); and Edward Graham and Paul Krugman, *Foreign Direct Investment in the United States*, 2d ed. (Washington, D.C.: Institute for International Economics, 1991).

[51] Kent Calder, *Crisis and Compensation* (Princeton: Princeton University Press, 1988), 479–80; on the role of the Liberal Democratic Party in this regard, see Frances McCall Rosenbluth, "Japan's Response to the Strong Yen: Party Leadership and the Market for Political Favors," in Gerald Curtis, ed., *Coping with Change: New Directions in Japan's Foreign Policy* (New York: M. E. Sharpe, 1993).

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1984, $14.4 billion in 1986, and $34.1 billion in 1988. During the latter years of the 1980s, Japanese FDI grew at an average rate of 35.5 percent per year.[52] For Japanese companies, the progressive internationalization of their production facilities was matched by the increasing global diversification of their financing. In 1975 they raised ¥2.8 billion on domestic capital markets and ¥.5 billion on overseas markets. In 1989 the comparable figures were ¥17.2 billion on domestic markets and ¥11.1 billion overseas.

Despite extreme financial turbulence in the 1990s, including a collapse in stock and real estate prices and an associated pullback of Japanese financial intermediaries from foreign markets, few observers expected a movement back to capital controls. The internationalization of Japanese business and the international integration of Japanese financial markets had proceeded far enough to make such an option much less feasible than it had been even a decade earlier. For leading Japanese firms, in particular, strategies of evasion and exit were now embedded in their very structures. That reality gave them significant new leverage over Japan's capital policies.

France

DEVELOPMENT OF CONTROLS

Controls on foreign exchange transactions in France, although first introduced in 1915, became firmly established only after the Second World War. Like most other European countries, France initially used capital controls to ensure that its limited foreign exchange be used for domestic reconstruction and development. In later years, controls on capital outflows were kept in place because of persistent current account deficits. In these circumstances, controls were deemed necessary to insulate domestic interest rates from world markets. In 1966 a new law gave the government the right to control all foreign exchange transactions between France and the rest of the world, oversee the liquidation of foreign funds in France and French funds abroad, and prescribe conditions for the repatriation of all income earned abroad.[53]

These new controls on capital movements added to France's already impressive array of administrative measures designed to direct the flow of savings and investment. The Treasury, for example, channeled funds directly from the government budget to industry. It also controlled the

[52] Julius (fn. 16), 118; and Edward J. Lincoln, *Japan's Unequal Trade* (Washington, D.C.: Brookings Institution, 1990), 121.

[53] Philippe Jurgensen and Daniel Lebegue, *Le Trésor et la politique financière*, fasc. 3 (Paris: Les Cours de Droit, 1984), 48–64.

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country's parapublic banks—such as the Banque Française du Commerce Exterieur and the Crédit National—which had been created to provide favored sectors with access to credit at subsidized rates. And finally, it guided the trajectory of financial flows through its use of controls over domestic interest rates and bank lending (the famous *encadrement du crédit*).[54]

The importance of both capital and credit controls increased with France's decision in 1979 to join the EMS. Although French authorities had never allowed the franc to float freely, the EMS fixed the value of the franc more rigidly. Yet between 1979 and 1984, no government, whether of the Right or the Left, was willing to raise interest rates high enough to maintain the value of the franc in the EMS. Capital controls enabled the government to keep interest rates lower than would otherwise have been required.

The use of capital controls intensified following the 1981 election of François Mitterrand, the first socialist president of the Fifth Republic. Mitterrand inherited a currency that had become substantially overvalued, and his government's commitment to fiscal expansion and income redistribution soon triggered a run on the franc.[55] In the midst of this crisis, Mitterrand and his advisers refused to sacrifice the goal of exchange rate stability. As Jean Peyrelevade, a principal economic adviser, later explained:

> Allowing the franc to float . . . would have caused our international partners, who were already suspicious, to doubt the new government's attachment to Europe. Allowing the franc to float would have immediately wakened the old demons . . . that the arrival of the left in power translated immediately into the sacrifice of our currency . . . and the inability to manage the economy.[56]

Nor was the government willing to sacrifice monetary autonomy; despite the fact that France's major trading partners were in recession, the government continued with its plans to stimulate the economy.[57] With these

[54] On the instruments and workings of French financial policy, see Jacques Mélitz, "The French Financial System: Mechanisms and Propositions of Reform," *Annales de l'INSEE* 47–48 (July–December 1982); and idem, "Financial Deregulation in France," *European Economic Review* 34 (1990).

[55] The effects of the Socialist program on capital flows are found in Philippe Bauchard, *La guerre des deux roses* (Paris: Grasset, 1986); Michel Beaud, *Le mirage de la croissance*, vol. 1 (Paris: Syros, 1983); and Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), chap. 8.

[56] Cited in Thierry Pfister, *La vie quotidienne à Matignon au temps de l'Union de la Gauche* (Paris: Hachette, 1985), 246; see also Jean Peyrelevade, "Témoignage: fallait-il dévaluer en mai 1981?" *Revue politique et parlémentaire* (June 1986).

[57] Mitterrand's advisers realized that domestic expansion at a time when France's major trading partners were in recession would increase the current account deficit and hence lead

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options ruled out, the government therefore tightened controls on the foreign exchange positions of French companies, on the overseas accounts of individuals, and on borrowing by nonresidents in France.

These controls provided the government with some breathing space, but the combination of growth at home and recession abroad soon caused France's trade and current accounts to fall deeply into the red (see Figure 3). Even with more restrictive capital controls and tighter credit ceilings, however, the socialist government was unable to eliminate pressure against the franc and was therefore forced to devalue on three occasions during its first two years in office. In the aftermath of the third devaluation, the government decided to reverse course and replace its earlier expansion plans with deflationary monetary and fiscal policies.[58] In ad-

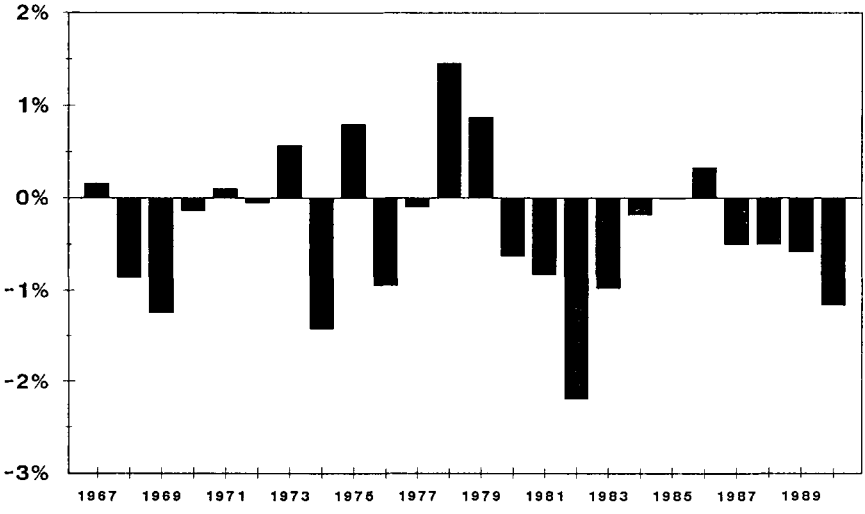

FIGURE 3
CURRENT ACCOUNT AS A PERCENTAGE OF GDP
(FRANCE)
SOURCE: IMF, *International Financial Statistics* (various years).

to more pressure against the franc. However, they expected the world economy to recover by the end of 1981 and counted on that recovery to restore a current account surplus. See Robert D. Putnam and Nicholas Bayne, *Hanging Together: The Seven-Power Summits* (Cambridge: Harvard University Press, 1984), 150.

[58] On the evolution of Mitterrand's economic policies, see Bauchard (fn. 55); Beaud (fn. 55); Alain Fonteneau and Pierre-Alain Muet, *La gauche face à la crise* (Paris: Presses de la Fondation National des Sciences Politiques, 1985); and Michael Loriaux, *France after Hegemony: International Change and Domestic Reform* (Ithaca, N.Y.: Cornell University Press, 1991), chap. 8.

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dition, it adopted draconian capital controls: foreign equities and bonds could only be traded by French citizens among themselves. Importers faced strict limits in their ability to cover their foreign exchange risk, while exporters were forced to repatriate foreign-currency earnings almost immediately. French nationals could only keep a foreign bank account while they resided abroad. French tourists could take only a small amount of foreign exchange outside the country and were deprived of the use of their credit cards.[59]

For the socialists as for their conservative predecessors, heavy reliance on capital controls thus resulted primarily from a desire to keep domestic interest rates lower than those generally prevailing in the rest of the world without abandoning the objective of exchange rate stability. Lower interest rates reduced demand for franc-denominated assets and stimulated domestic demand for imports. Together, these two effects increased net capital outflows and placed pressure on the franc. To avoid a precipitous decline of the franc (even if France left the EMS), tighter capital controls were deemed necessary. As the socialist government discovered, however, such controls had to be continuously tightened if they were to be effective. The controls of 1983 placed the French economy in the tightest corset since World War II.

REASONS FOR LIBERALIZATION

In November 1984 Prime Minister Laurent Fabius announced a dramatic new plan to reform the entire financial system. The government planned not only to eliminate credit ceilings and capital controls, but also to create new money, bond, and futures markets. Such wholesale reform had not been expected. Unlike France's decision to remain in the EMS, pressure from its EC partners was not part of the policy calculation; indeed, the announcement of its financial reform package *preceded* the commission's June 1985 white paper on European financial integration. As Jacques Mélitz has argued, just the opposite appears to have been true:

> When economic historians look back at this important juncture in European financial history . . . they will conclude that the French liberalization program was the single most important forerunner of the White Paper. With this liberalization program came the French support for an integrated European market for financial services, without which the proposal of a Single Market would never have gotten off the ground.[60]

[59] Jacques Mélitz, "Monetary Policy in France," in Michele Fratianni and Dominick Salvatore, eds., *Handbook of Monetary Policy* (Westport, Conn.: Greenwood Press, 1993), chap. 10.

[60] Mélitz (fn. 54, 1990), 394–95; see also Andrew Moravcsik, "Negotiating the Single Eu-

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What drove this new program of financial liberalization? Evasion strategies on the part of individuals and firms were certainly in the background; the famous stories about suitcases filled with foreign currency being carried into Switzerland come to mind. More subtle and ultimately more decisive pressures emanated, however, from the boardrooms of large French firms and financial intermediaries. In the French case, direct threats of exit were muted by the fact that virtually all of these firms were owned or controlled by the state.[61] In this environment, such an option was transmuted into the rising concerns of government officials regarding the competitiveness of those firms relative to their foreign rivals.[62] Jobs and investment that were promised by growth in the service sector, for example, were seen to be leaving France and migrating to less-restricted markets. In a very real sense, especially in financial services, Paris was increasingly seen to be in direct competition with London and Frankfurt. Such perceptions clearly lay behind the subsequent commitment of Finance Minister Balladur to make Paris "the leading financial market in Europe."[63]

By 1984 the situation had become severe, and French policymakers recognized the pressing need to change course.[64] When international capital markets were rapidly developing elsewhere, the competitiveness of both French industry and finance was now seen to be seriously undermined by capital controls. In 1985 the elimination of credit ceilings began, and new money, bond, and futures markets were created. The phaseout of capital controls followed, with major steps taking place in 1986 and 1989; in January 1990 controls disappeared completely with the lifting of the ban on the holding of foreign deposits by French nationals.[65]

The shift in favor of capital mobility eventually tied in directly with plans for European Monetary Union (EMU), and France became a key

ropean Act: National Interests and Conventional Statecraft in the European Community," *International Organization* 45 (Winter 1991).

[61] Some firms sought to escape the wave of nationalization and the subsequent loss of control. The most prominent example was Paribas, the large financial holding company, whose CEO, Pierre Moussa, sought to sell majority control of the company to investors in Switzerland and Luxembourg. Bauchard (fn. 55), 68.

[62] Interviews with French government officials, Paris, June 1988. See also Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain," *World Politics* 42 (October 1989). The government's subsequent assessment of the position of French financial firms is reported by Pierre Achard, "Le marché unique de 1992: perspectives pour les banques, les assurances, et le système financier français" (Report of the Ministries of Economy, Finance, and Privatization, December 1987).

[63] Cited in *Euromoney*, September 1987, 143.

[64] See Bauchard (fn. 55), chaps. 3, 4.

[65] Mélitz (fn. 59). See also Peter Oliver and Jean-Pierre Baché, "Free Movements of Capital between the Member States: Recent Developments," *Common Market Law Review* 26 (1989).

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promoter of the idea.[66] The freedom of capital movements across the member states of the prospective union, indeed, was a prerequisite. But the planning for EMU followed the new commitment to restore and enhance the competitiveness of French industrial firms and financial intermediaries. The Delors Committee report on EMU came in 1988, three years after decontrol became the thrust of financial policy within France. That policy remained consistent despite the election of a conservative government in 1986 and the return of the socialists in 1988. In effect, as international financial integration outside France accelerated, French policymakers came to the conclusion that their preference for national monetary autonomy was unrealistic. The decision to initiate capital decontrol followed and accelerated as the country's external accounts improved.

ITALY

DEVELOPMENT OF CONTROLS

Restrictions on capital movements were initially put in place in Italy during the First World War. They were refined and tightened by Mussolini during the following two decades. Controls were relaxed in the late 1950s, a period of current account surpluses and currency stability. The "hot autumn" of 1969, however, dramatically altered Italy's economic trajectory. Facing increased labor militancy, the government put into place an expansionary fiscal policy to spur growth and ensure social peace. By 1973 this policy resulted in fiscal imbalances and current account deficits (see Figure 4). The lira soon came under speculative attack. Rather than reverse its economic policy and risk unrest, the government responded by tightening capital controls.[67]

Italian economic policy after the 1973 oil shock followed a classic stop-and-go cycle that made capital controls even more necessary. The oil shock caught Italy in a difficult position—with both a booming economy and a significant current account deficit. With the backing of the IMF, macroeconomic policy shifted to a decidedly more restrictive course in 1974, and by 1975 the Italian economy had fallen into its deepest recession since the 1950s. A shift to easier monetary and fiscal policy in early 1975, however, brought an exceptionally rapid recovery. Booming imports created downward pressure on the lira, and fears of a communist

[66] On France and EMU, see Goodman (fn. 14), 202–8.

[67] For a broader discussion of the economic policies pursued in this period, see Michele Salvati, "The Italian Inflation," in Leon W. Lindberg and Charles S. Maier, eds., *The Politics of Inflation and Economic Stagnation* (Washington, D.C.: Brookings Institution, 1985); and Robert J. Flanagan, David W. Soskice, and Lloyd Ulman, *Unionism, Economic Stabilization, and Incomes Policies* (Washington, D.C.: Brookings Institution, 1983), chap. 9.

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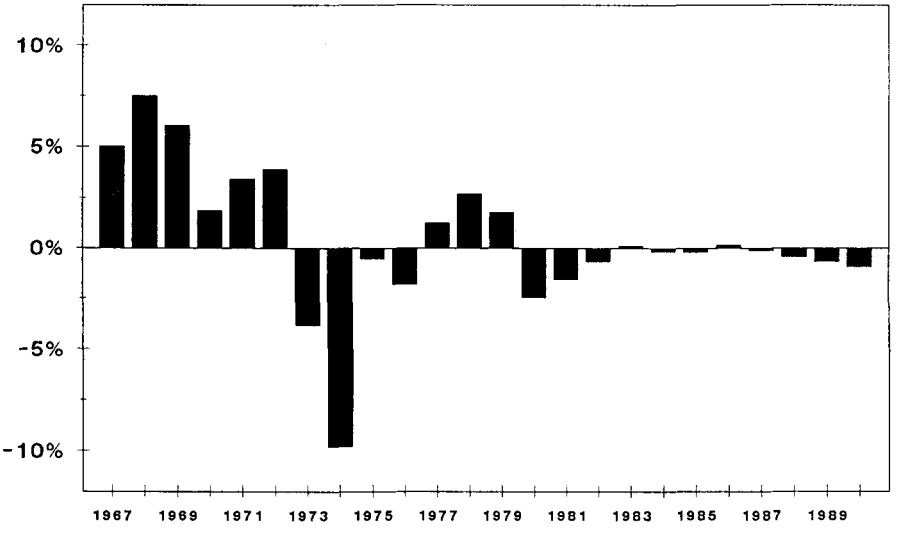

FIGURE 4
CURRENT ACCOUNT AS A PERCENTAGE OF GDP
(ITALY)
SOURCE: IMF, *International Financial Statistics* (various years).

electoral victory accelerated capital flight. Despite heavy intervention in the foreign exchange markets, which left Italy with only $500 million in reserves, the lira depreciated by 20 percent in the first four months of 1976.[68]

The Italian authorities responded by tightening monetary policy, fiscal policy, and capital controls. The most draconian measures were embedded in Law 159 of 1976, which essentially decreed that every foreign exchange transaction was illegal unless specifically authorized. In particular, the law made it a criminal offense either to send or to hold more than 5 million lire abroad without permission. Moreover, Italians owning residential property abroad were required to sell it and bring the proceeds back to Italy. A year later, these controls were eased somewhat after the communists were finally included in the governing majority, after the trade unions agreed to make wage concessions, and after a standby arrangement was negotiated with the IMF.[69]

[68] Luigi Spaventa, "Two Letters of Intent: External Crises and Stabilization Policy, Italy, 1973–1977," in John Williamson, ed., *IMF Conditionality* (Washington, D.C.: Institute for International Economics, 1983).

[69] *Financial Times*, November 5, 1983, and April 4, 1985.

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Still, government officials viewed capital controls as a means of avoiding hard choices. By the mid-1980s the annual budget deficit had topped 11 percent of GDP and cumulative debt approached 100 percent of GDP.[70] To finance these deficits, the government had long relied on a large domestic savings pool. Household savings in Italy amounted to 20 percent of personal disposable income—the second highest savings rate in the world after Japan.[71] Doing away with capital controls in the face of such deficits meant that domestic savers would be able to purchase foreign assets, forcing the government to offer a higher rate of interest on its own debt. As Bank of Italy director general Lamberto Dini explained in 1986: "If we liberalize capital controls at a time when government financing needs are too high, we'd have to accept the risks of much higher interest rate variability."[72]

Italy's decision to join the EMS in 1979 made matters even more difficult. With an economic policy more expansionary than that of its neighbors, exchange markets would not long find credible the country's commitment to maintain a fixed exchange rate. Here, too, capital controls were seen as a way of avoiding hard choices. Controls were eased and then reimposed each time the lira came under attack in exchange markets.[73]

REASONS FOR LIBERALIZATION

The elimination of capital controls in Italy did not begin until 1987 and was not completed until 1992. Given the difficulties faced by Italian policymakers, the source of this policy change is particularly interesting. Of the major EC countries, Italy was the only one whose decision was affected by pressure from its partners, particularly Germany, to comply with the EC directive on capital movements. In July 1986, for example, the European Court of Justice ruled that Italy had to give up insisting that every Italian citizen who held securities abroad had to keep 25 percent of their value in a non-interest-bearing account with the central bank. (In this instance, the Italian government responded by reducing the deposit to 15 percent.)[74]

Still, it would be a mistake to attribute Italy's policy shift primarily to such external pressure, for in Italy—as in Germany, Japan, and France—private pressure for liberalization had become pervasive. Evasion of cap-

[70] Banca d'Italia, *Annual Report 1989*, 66–69.
[71] OECD Economic Surveys, *Italy* (1988–89), 183.
[72] Steven Solomon, "Freeing Up Italian Finance," *Institutional Investor* (November 1986), 308.
[73] *Financial Times*, October 25, 1985, and April 24, 1986.
[74] Alison Macleod, "Train of the Lawless," *Euromoney*, September 1986, p. 374.

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ital controls, of course, was a national sport, practiced by business executives, government ministers, and even church officials.[75]

More important for the shift in policy, however, was the increasingly assertive position taken by private firms. Financial institutions, for example, had become concerned about the effect of controls on their ability to compete. It was perhaps not surprising that foreign companies opposed capital controls. The chairman of Lloyd's of London, Peter Miller, for example, noted that Assicurazione Generali could write business in London and remit proceeds to Italy, but "if we write business in Italy, we are not free to remit the proceeds to England."[76] Yet domestic institutions also believed they were being disadvantaged. Nerio Nesi, chairman of the Banca Nazionale del Lavoro, the largest Italian bank, argued that if Italy "doesn't want to be left out of the most important financial flows, [it] has to bring its laws into line with the new situation. And that means opening the frontiers."[77]

Manufacturing firms, like Olivetti and Fiat, also favored an end to controls. As the power of organized labor diminished in the 1980s, these firms became more profitable and competitive in foreign markets.[78] They were therefore also more directly hampered by restrictions on capital movements and concerned about the prospect of not being able to take full advantage of the expanding EC market. Moreover, throughout the 1980s, many corporate groups—including Fiat, Montedison, and Ferruzi—had entered the financial sector, both individually and in concert with Italian banks. With diversification, these corporations developed new interest in the further development of domestic capital markets, as well as the extension of access to external markets. Capital controls impeded this prospect.[79] So too did the never-ending rise in public borrowing. Accordingly, corporate leaders pushed for the elimination of controls in the hope of forcing greater discipline upon the government.[80] In 1987, in a political environment significantly reshaped by changing corporate structures and preferences, the Italian government began stripping away existing controls on capital movements—a move completed in 1992—and pushed through legislation limiting its own power to reimpose new controls during times of currency crisis.

[75] In 1985 the archbishop of Brescia was arrested at Milan airport for trying to take $20,000 in Italian currency on a Christmas mission to Africa. Ibid., 376.

[76] Ibid., 375.

[77] Ibid.

[78] On the decline of the power of organized labor in Italy, see Flanagan, Soskice, and Ulman (fn. 67), chap. 9.

[79] Solomon (fn. 72); and Richard I. Kirkland, Jr., "A New Dose of Capitalism Turns Italy Around," *Fortune*, April 14, 1986, p. 98.

[80] Macleod (fn. 74).

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Conclusion

In the early years of the postwar period, governments relied on controls over short-term capital movements for one fundamental purpose—to provide their economies with the maximum feasible degree of policy-making autonomy without sacrificing the benefits of economic interdependence. Controls were a shield that helped deflect the blows of international competition and ameliorate its domestic political effects. In the Bretton Woods system of pegged exchange rates, controls promised to provide both the space needed for the design of distinct national economic policies and the time needed for gradual economic adjustment to a changing external environment. To the surprise of some, they remained essential for many governments even when that system was replaced by managed floating.

Between the late 1970s and the early 1990s, a broad movement away from capital controls was evident across the industrialized world. The rapid growth of liquid international funds and the increasing globalization of production drove this process. Offshore markets eroded national financial barriers, not least by providing ever-widening sources of funding for multinational firms engaged in the process of globalizing their production facilities. In so doing, they enhanced the capability of firms to develop evasion and exit strategies. Governments thus first found that controls had to be tightened continuously to remain useful and then discovered that the resulting or potential economic costs of such tightening soon exceeded the benefits.[81]

To be sure, governments encouraged or at least acquiesced in both the growth of offshore money markets and the international expansion of firms. Yet as our case histories show, governments continued to impose capital controls long after such developments became salient. In this sense, the diminishing utility of capital controls can be considered the unintended consequence of other and earlier policy decisions.

Strategies of evasion and exit on the part of firms, we have argued, threatened to reduce the volume of domestic savings and investment, the promotion of which often constituted the original rationale for controls. Of course, firms could use direct methods for pushing the decontrol agenda, as we saw in the French case where state ownership was a significant factor. But their ultimate influence on policy came from the pressure to evade controls or exit from their national jurisdictions if they were to remain competitive. In the German case, for example, by making

[81] For a prescient argument in this vein, see Benjamin J. Cohen, "Capital Controls and the U.S. Balance of Payments: Comment," *American Economic Review* 55 (March 1965).

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moves offshore, the Deutsche Bank effectively made the case that capital controls were inconsistent with the goal of building a strong national financial center.

Other factors have influenced the elimination of capital controls, but our cases suggest that such factors played a secondary role. The principle of international capital mobility, for example, had long been enshrined in the OECD Code on Capital Movements, but until the 1980s virtually every major signatory country had at some point honored that principle in the breach. Similarly, a common European capital market was a key objective of the 1992 program, but the success of this effort was preceded (and made possible) by national programs of capital decontrol in both France and Germany. Fundamental changes at the domestic level also underpinned the apparent success of direct political pressure by other governments. In the Japanese case, for example, American pressure appeared at most to reinforce firm-level pressures associated with the rapid expansion of Japanese financial intermediaries and companies in overseas markets.

Notwithstanding the general movement in the direction of capital liberalization across the advanced industrial world, our cases point to important differences in the timing of actual decisions to decontrol. It was easier for countries facing capital inflows (Japan and Germany) to lift capital controls, than it was for countries facing capital outflows (France and Italy). The difference in timing—roughly a decade—underlines the mechanism by which systemic forces were translated into national decisions. Our cases do not enable us to reach definitive conclusions in this regard, but it seems likely that these differences in timing are correlated with broader variations in domestic political structures.[82] Whether a country is facing chronic capital inflows or outflows may depend upon the structure of the state and the relative strength of domestic interest groups.[83] But the fundamental convergence in the direction of capital

[82] On the relationship between the capacities and resources of government institutions and their influence on policy-making, see, e.g., Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992); John G. March and Johan P. Olsen, *Rediscovering Institutions: The Organizational Basis of Politics* (New York: Free Press, 1989); G. John Ikenberry, *Reasons of State: Oil Politics and the Capacities of American Government* (Ithaca, N.Y.: Cornell University Press, 1988); Hall (fn. 55); Peter J. Katzenstein, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1985); and John Zysman, *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca, N.Y.: Cornell University Press, 1983).

[83] A number of scholars have argued, for example, that Italian institutions—characterized by a weak executive, an inefficient bureaucracy, and the existence of multiple political parties—have made it impossible for any government to take the actions necessary to strengthen the national economy. See, e.g., Giuseppe Di Palma, "The Available State: Problems of Reform," in Peter Lange and Sidney Tarrow, eds., *Italy in Transition* (London: Frank Cass,

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mobility noted in all of our cases suggests that systemic forces are now dominant in the financial area and have dramatically reduced the ability of governments to set autonomous economic policies.

Our argument and evidence do not suggest, however, that a movement back toward capital controls or analogous policies to influence the flow of capital are impossible, only that such a movement would be more costly from a national point of view. Indeed, the restoration of controls is not just a theoretical possibility. In the midst of the European currency crisis in September 1992, for example, Spain and Ireland imposed new controls on banks' foreign exchange transactions. Despite the fact that such "temporary" measures did not contravene the letter of a prior agreement to eliminate impediments to capital mobility throughout the European Community, they surely conflicted with its spirit. More generally, continuing instability in global currency markets did subsequently lead the G-7, at the urging of American treasury secretary Nicholas Brady, to commission a new study to explore multilateral approaches to dealing with the consequences of international capital mobility.[84]

If our argument is correct, two theoretical as well as policy implications bear underlining. First, if pressures for capital decontrol are now deeply embedded in firm structure and strategy, any efforts to understand or deal with the political effects of short-term capital mobility would seem to entail dealing with the politics of foreign direct investment. The two issues have long been related, but have also long been viewed as distinguishable for conceptual as well as for policy purposes. The distinction has broken down. The adoption of policies to influence short-term capital flows would now have a clearer impact on long-term investment decisions. Further research on this deepening connection is warranted.

Second, if policy convergence on the issue of capital controls is intimately linked to the development of international financial markets, attempts to understand and manage the effects of short-term capital mobility cannot be divorced from efforts to enhance the cross-national coordination of financial policies. As the negotiators at Bretton Woods recognized in 1944, open and stable markets ultimately depend upon a modicum of shared behavioral norms.[85] Despite deepening interdepen-

1980); and Alan R. Posner, "Italy: Dependence and Political Fragmentation," in Katzenstein (fn. 3).

[84] Undertaken by a larger body, the study was released as Group of Ten, *International Foreign Exchange Markets: A Report to the Ministers and Governors by the Group of Deputies* (n.p., April 1993).

[85] See Friedrich V. Kratochwil, *Rules, Norms, and Decisions* (Cambridge: Cambridge University Press, 1989), chap. 7; John Gerard Ruggie, ed., *Multilateralism Matters: The Theory*

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dence across contemporary financial markets, states retain the right to change their policies on capital movements, either individually or on a regional basis. What remains unclear is their obligation to take into account the consequences of such policies for other states and for the world community. Thus, the time may now be ripe to begin considering new international arrangements to define and demarcate national responsibilities in an age of global markets.

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and Praxis of an Institutional Form (New York: Columbia University Press, 1992); and Louis W. Pauly, "The Political Foundations of Multilateral Economic Surveillance," *International Journal* 47 (Spring 1992).

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IRRATIONAL WORKERS
The Moral Economy of Labor Protest in Egypt

By MARSHA PRIPSTEIN POSUSNEY*

DO individuals always seek to maximize utility based on selfishly defined preferences, regardless of the social and economic context in which they operate? One of the strongest critiques of rational-choice theory is leveled at its assertion that selfish behavior is ubiquitous, even if it is only encouraged by market economies. Marxists have countered with the potential for workers in industrialized countries to champion socialist principles, while moral economists have posited antimarket sentiments among Third World peasants.[1]

Recently, the debate has been extended to workers in developing countries as well.[2] This paper seeks to deepen that discussion through an examination of collective protest by workers in Egypt, covering the period from the 1952 Free Officers' coup through the late 1980s. Considering the nature of these protests, their immediate causes, and their frequency in relation to economic conditions, I argue that a moral economy approach provides the best explanation for collective action by Egyptian labor. The next section (1) frames the discussion by examining what Marxism, rationality, and moral economy would each lead us to expect about labor protest and (2) sketches the argument in favor of a moral economy interpretation. Following the supporting evidence, the final section considers the implications of this study for comparative analysis and then explores ways in which the other perspectives might supplement moral economy to offer a more encompassing interpretation of workers' behavior.

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[1] See the discussions in Adam Przeworski, "Marxism and Rational Choice," *Politics and Society* 14, no. 4 (1985); and Samuel Popkin, *The Rational Peasant* (Berkeley: University of California Press, 1979), esp. chaps. 1, 2.

[2] Ellis Goldberg, "The Foundation of State-Labor Relations in Today's Egypt," *Comparative Politics* 24 (January 1992).

World Politics 46 (October 1993), 83–120

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Short of proletarian revolution, Marxism anticipates a fairly steady growth in the frequency of strikes and the number of workers involved in them as capitalism progresses. More and more workers should come to recognize and seek to change the terms of, or end, their exploitation. Moreover, as workers increasingly realize their common interests as a class, we should expect more acts of solidarity and individual factory protests to blossom into industry-wide or general strikes.[3] There should also be evidence of more frequent and/or larger struggles erupting at plants where Marxists are working to raise the class consciousness of workers.

Nationalism, however, is one factor that might intervene to slow this process. Beinin and Lockman argue convincingly that, because of colonialism, national liberation became more important than class struggle to Egyptian workers in the pre- and immediate post-1952 period. That much of the Marxist movement itself adopted this same view, but was nevertheless subject to severe repression by the new regime, points to two other factors that might explain the failure of workers to adopt a revolutionary posture: the inability of Marxists themselves to organize effectively or their doing so from an "incorrect" political perspective.[4]

Another complication is that in Egypt, free-market capitalism gave way to a mixed system beginning in the late 1950s, when Nasser brought the largest enterprises in the country under state control. Although he labeled this new economic system "socialism," numerous analysts have referred to it instead as "state capitalism" or "state socialism," because private enterprise continued to exist in Egypt, the market remained the main means of distribution of goods, and state ownership signified little in the way of actual workers' *control* over the means of production. Michael Buroway has argued that such a system will still engender working-class solidarity; workers will recognize that they have a collective interest in opposition—not to private capitalists, however, but to "the authorities."[5] Thus, at some point after the initiation of state socialism, a

[3] On the importance of solidarity to the Marxist notion of class consciousness, see Douglas E. Booth, "Collective Action, Marx's Class Theory, and the Union Movement," *Journal of Economic Issues* 12 (March 1978), esp. 168–69; and Jon Elster, *Making Sense of Marx* (Cambridge: Cambridge University Press, 1985), 347.

[4] Joel Beinin and Zachary Lockman, *Workers on the Nile* (Princeton: Princeton University Press, 1987), esp. 428–43; Joel Beinin, "The Communist Movement and Nationalist Political Discourse in Nasirist Egypt," *Middle East Journal* 41 (August 1987); and idem, "Labor, Capital, and the State in Nasirist Egypt, 1952–61," *International Journal of Middle East Studies* 21 (February 1989).

[5] Buroway, "The Contours of Production Politics," in Charles Bergquist, ed., *Labor in the Capitalist World Economy* (New York: Sage, 1984), 41–42. See also the application of Buro-

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workers' movement should start and then grow steadily, with the demands raised in labor protests reflecting increasing hostility toward the state.

According to the moral economy approach, collective action is a response to violations of norms and standards to which the subaltern class has become accustomed and which it expects the dominant elites to maintain. Rather than reflecting some emerging new consciousness, then, protests under a moral economy aim at resurrecting the status quo ante. The goal is not to negotiate and redefine the terms of exploitation but to reinstate them after they have been abandoned. Moral economy arguments are most commonly associated with agrarian societies and peasant rebellions, where they propose that peasants are primarily concerned with ensuring a subsistence income; they will avoid risks and resent in particular elite actions that threaten this basic standard.[6] The logic has been used to explain workers' protests as well: E. P. Thompson demonstrates that eighteenth-century English workers were moved to protest violations of their notions of fair practices in the grain marketplace, and Charles Sabel shows that Third World immigrant workers in Europe would strike when angered by insults to their dignity and/or infractions of the principle of "a fair day's work for a fair day's pay." Peter Swenson illustrates how even in advanced industrial economies, workers' views of just wages are influenced by distributional norms; strikes can be precipitated when these are upset.[7] Thus, one sees evidence of a moral economy in Egypt in collective action by workers that follows a "stability-disruption-protest" pattern, with demands that are restorative and/or exhibit notions of fairness and patron-client relationships.[8]

Rational-choice theory holds that all social phenomena must be understood as the consequence of aggregated individual behavior, with individual decisions based on expected outcomes according to an ordered set of preferences that can be formalized in a utility function.[9] Much of

way's arguments to Egypt in John S. Henley and Mohamed M. Ereisha, "State Control and the Labor Productivity Crisis: The Egyptian Textile Industry at Work," *Economic Development and Cultural Change* 35 (April 1987).

[6] See James Scott, *The Moral Economy of the Peasant* (New Haven: Yale University Press, 1976); and the discussion in Popkin (fn. 1).

[7] Thompson, "The Moral Economy of the English Crowd in the Eighteenth Century," *Past and Present*, no. 50 (February 1971); Sabel, *Work and Politics: The Division of Labor in Industry* (Cambridge: Cambridge University Press, 1982), 128–36; Swenson, *Fair Shares* (Ithaca, N.Y.: Cornell University Press, 1989), 11–108.

[8] On the use of the stability-disruption-protest model by pluralist theorists, see David Greenstone, "Group Theory," in Fred I. Greenstein and Nelson Polsby, eds., *Micropolitical Theory* (Reading, Mass.: Addison-Wesley, 1975).

[9] See, inter alia, Jon Elster, *Sour Grapes* (Cambridge: Cambridge University Press, 1983), esp. 1–42; and Barry Hindess, "Rational Choice Theory and the Analysis of Political Action," *Economy and Society* 13, no. 3 (1984); William H. Riker, "Political Science and Rational

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the literature also presupposes that these preferences are shaped by selfishness, which in turn is often equated with income-maximizing behavior.[10] The classic application of this logic to industrial relations suggested that workers will strike only if the expected benefits, in terms of higher pay and benefits, exceed the expected costs, in terms of forgone wages and possible job loss. This should occur when the labor market is tight, since under these circumstances workers will anticipate fewer risks from striking and expect to wring more concessions from their employers. Thus, while workers may have grievances, strikes are precipitated by a perception of opportunity, not by an increase in discontent.[11]

Mancur Olson's seminal work on the free-rider problem added that this perception of opportunity is not enough, because self-interested rational individuals would not risk the cost of participating in actions that, if successful, would benefit them anyway. For Olson, collective action by labor therefore hinged on the ability of union leaders to provide monetary gains selectively to members only. Other scholars have since emphasized nonmaterial rewards for participation;[12] game theorists stress how the benefits of cooperative behavior can be learned through repeated experience.[13]

However, the underpinnings of rational choice lend themselves to a variety of interpretations of workers' behavior, depending on how one specifies their utility functions. Ellis Goldberg explores how rationality might work differently in the labor market conditions prevalent in developing countries. He suggests that in the Third World, workers' skills are largely plant-specific, making tenure at their place of employment

Choice," in James E. Alt and Kenneth A. Shepsle, eds., *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990); and Herbert Simon, "Human Nature in Politics: The Dialogue of Psychology with Political Science," *American Political Science Review* 75, no. 2 (1985).

[10] The critique of rationality in this article is aimed primarily at this presumption, and interpretation, of selfishness. For the debate about selfishness within the rationality school, see, e.g., Amartya K. Sen, "Rational Fools," *Philosophy and Public Affairs* 6, no. 4 (1977).

[11] For a review of empirical studies that support this argument in the Western context, see Andrew R. Weintraub, "Prosperity vs. Strikes: An Empirical Approach," *Industrial and Labor Relations Review* 19 (October 1965); Bruce E. Kaufman, "Bargaining Theory, Inflation, and Cyclical Strike Activity in Manufacturing," *Industrial and Labor Relations Review* 34 (April 1981); and Michael Shalev, "Trade Unionism and Economic Analysis: The Case of Industrial Conflict," *Journal of Labor Research* 1 (Spring 1980).

[12] Olson, *The Logic of Collective Action* (New York: Basic Books, 1971); Russell Hardin, *Collective Action* (Baltimore: Johns Hopkins University Press, 1982).

[13] Edward N. Muller and Karl-Dieter Opp pose a "collective rationality" that values group rather than individual benefits in opposition to individual rationality, whereas the "analytic Marxists" hold that game theory shows how individually selfish rational workers learn the benefits of collective action; Muller and Opp, "Rational Choice and Rebellious Collective Action," *American Political Science Review* 14 (June 1986). See especially Jon Elster, "Marxism, Functionalism, and Game Theory," *Theory and Society* 11 (July 1982).

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their only guarantee of a stable income. Achieving job security, presumably through a seniority system, is thus an important motive for collective action, and hence older workers who would benefit most from seniority protections are the most likely supporters of unions. At the same time, workers will be disinclined to support collective action in industries considered likely to respond with layoffs. This explains interindustry differentials in the strength of unions in Egypt before 1952.[14]

This analysis does not contradict the opportunity-maximizing logic outlined above. Rather, as Goldberg implies, Third World workers weigh utilities differently than do those in "the North"; he does not, however, challenge the more fundamental point that collective action will occur only if its expected benefits exceed its expected costs according to workers' calculus. In effect, the two approaches are complementary: one is an argument about variations in the overall level of collective action according to macroeconomic conditions, whereas the other explains why workers in different industries and/or those with different skill levels in the same industry might vary in their propensity to act collectively under the same set of macroeconomic circumstances.

Goldberg then argues that Nasser's economic policies eliminated the risk of job loss as an impediment to collective activity. At the same time, however, they removed the motivation for it, since the state was now providing job security. Hence, workers were disenchanted with unions during the Nasser years. Goldberg saw a potential for a return to union sentiments after Sadat initiated the economic liberalization program known as *infitah*, because of the widening of income disparities it produced. However, he suggests, workers were able to find alternative ways to increase their earnings in the new circumstances, so that collective action remained minimal throughout the postcoup period.[15]

This argument does not exhaust the possible ways that rational-choice logic might be used to analyze labor behavior in postcoup Egypt. In particular, while Goldberg highlights economic differences between developed countries and the Third World, he fails to address, or treats only as a dependent variable, some significant political and institutional differences. An alternative or supplementary rational-choice argument might consider, especially, the effect of repression. Strikes were outlawed in Egypt after 1952, with fines and jail terms specified in the criminal code for workers who refused to perform their jobs. In addition, emergency laws in effect virtually continually since that time gave the state the right to prosecute participants in other forms on labor protest, while

[14] Goldberg (fn. 2), 152–54.
[15] Ibid., 154–58.

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the generally arbitrary exercise of police power offers few protections against torture of detainees. Such punishment would presumably be calculated by workers as an expected cost of protest, so that the expected material gains from collective action would have to exceed workers' valuations of the likelihood, and cash equivalence, of incarceration, intense pain, or even death. In addition, the atrophy of the unions, treated by Goldberg as a *consequence* of the changes brought by the socialist labor market, could arguably be better cast as another *cause* of low levels of collective activity. The unavailability of unions as a vehicle for organizing collective protests and providing selective incentives, material and/or spiritual, would make the free-rider problem more difficult to overcome, especially in the context of the repressive climate described above.

Thus, taken together, these economic, political, and institutional factors suggest that collective action by labor in Egypt after the socialist changes should be quite rare. Provided that the likelihood of punishment is constant with regard to changing economic conditions, one might further infer that whatever protests do occur should happen in better economic times when more financial gains are anticipated, with any inter-industry differences in the level of protest activity correlated to variations in the risk of job loss. These three points will be taken as the signposts of selfish, utility-maximizing behavior on the part of Egyptian workers.

I will demonstrate here that collective protest by Egyptian workers has not been rare, although it has differed in its nature from labor protests in the North. Furthermore, although its frequency has varied with changing economic conditions, it has not conformed to the utility-maximizing logic of rational choice. Labor protests occur more frequently when the economy is deteriorating, suggesting restorative protest aimed at preventing erosion of the workers' standard of living. The immediate causes of these protests also give strong indications that feelings of entitlement have been violated. In many cases, workers did not raise new demands but rather sought to regain earnings that had been taken away, again indicating restorative protest.[16] Moreover, where workers sought actual raises, it was most often in a context of seeking parity with others who had just been granted the increase. Thus, workers were seeking to restore a preexisting egalitarianism. Feelings of entitlement are also evident in protests that erupted when management or the government failed to fulfill its promises.

For these reasons I argue that the moral economy perspective provides

[16] I use the terms "new" or "aggressive" demands to refer to those that seek increments to real wages or improvements in working conditions and that do not grow out of comparisons with the past.

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the best explanation of collective action by Egyptian workers. In this economy, workers view themselves as being in a patron-client relationship with the state. The latter is expected to guarantee workers a decent wage by regulating their paychecks and by controlling prices on basic necessities; the government should also ensure equal treatment of workers performing similar jobs. Workers, for their part, provide the state with political support and contribute to the postcolonial national development project through their labor.

Evidence of this *type* of moral economy comes, first, from the fact that in almost every incident the workers' demands were directed against the state. Second, workers revealed their view of their own obligations by eschewing actual work stoppages in favor of symbolic protests that affirm their continuing loyalty to the cause of production, even while they feel aggrieved. Thompson has argued that the entitlement expectations of the English "crowds" limited the flexibility of that country's rulers, an argument that should apply a fortiori when the government itself represents the elite target of workers' expectations.[17] The constraints it placed on the Egyptian government are an additional aspect of the Egyptian moral economy described here.[18]

Macroeconomic Conditions and Labor Protests: The 1950s and 1960s

There are numerous difficulties associated with collecting accurate data about wages and employment levels in Egypt, and even more problematic are the statistics regarding strikes.[19] Consequently this section makes

[17] Thompson (fn. 7), 79.

[18] It should be pointed out, however, that the actions of the Nasser regime that initiated the moral economy are here taken to be exogenously given; those aspects of Goldberg's article that attempt to explain state behavior as well through rational-choice logic are not addressed in this article.

[19] I use real-wage indices to indicate changes in workers' earning power. There are a number of different sources of nominal wage data in Egypt, each with a different scope and methodology. On the limitations of this data, see Ibrahim al-'Issawi, "Labour Force, Employment and Unemployment," Technical Papers no. 4, *Employment Opportunities and Equity in Egypt* (Geneva: International Labour Office, 1983), 2–3, and the explanatory notes to the tables. Real-wage calculations also hinge on the accuracy of the deflator employed. The sources cited here used either the general or the urban consumer price index (CPI), based on a market basket heavily weighted with domestically produced and price-controlled items to calculate the deflator. Since the 1970s, as consumer preferences have turned toward imports and as controlled items have become more difficult to find, the CPI has increasingly understated inflation.

No reliable time series on strike frequency was available. The statistics published in the annual *Yearbook of Labor Statistics* (Geneva: International Labour Office, various years) are supplied by the government and appear to reflect the fact that strikes are illegal and officially frowned upon; no incidents at all are reported between 1960 and 1968, for example, despite

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no attempt to make a precise correlation between the two. The available evidence does suggest, however, that Egyptian workers are most likely to protest when the economy is deteriorating, thus contradicting rational-choice predictions and lending support to the moral economy approach. There is also some indication that the overall level of protests that occurs when real wages are falling is increasing, so that Marxist arguments cannot be ruled out on this basis alone.

The 1950s under the rule of the Free Officers was, as Goldberg shows, a period of rising real wages and improving living conditions. At the same time, the new regime succeeded in purging militants from leadership of the unions and in co-opting the remaining moderates. This period also witnessed the virtual disappearance of strikes, in sharp contrast to the preceding decade.[20]

The socialist decrees of July 1961 brought immediate material improvements in workers' living standards, along with an elevation of their status in society.[21] The industrial workweek was reduced to six seven-hour days, and the minimum wage for many was doubled. Pensions, injury compensation, and health insurance were also improved. There were additional benefits for industrial and service workers in the public sector. Twelve different job categories, each with a set minimum salary, were defined, with annual raises guaranteed for all workers who perform satisfactorily. The state provided for worker representation on the board of management of all public sector firms, and it gave public sector workers a share in company profits. Finally, the early 1960s saw the enactment of the numerous prohibitions against firing public sector workers; these are cited by Goldberg. The impact of all this legislation on real wages is shown in Table 1.

documented evidence to the contrary. Furthermore, as will be shown below, most of the protests have not involved actual work stoppages and hence would not be reflected even in accurate data on strikes. In light of these deficiencies in the official statistics, I relied instead on press accounts and on interviews with leftists active in the labor movement for my information about labor protests. While I believe this was the best available alternative, several limitations to the data thus obtained should be mentioned. Since it is mainly the leftist press that covers labor protest, the data reflect both the capacities of the Left to obtain information and any biases of its individual and group constituents. The problem with capacity is that protests may go undocumented either because they occur without the knowledge of the Left or at times when the leftist press has been shut down, though certain tendencies, particularly *Sawt al-'Amal*, are determined to recover and publicize the history of such periods. To minimize the risks of bias, I endeavored to gain access to as many different leftist tendencies as possible and to form my own judgments in cases of conflicting information or interpretation.

[20] Goldberg (fn. 2); Beinin and Lockman (fn. 4), 428–43; Beinin (fn. 4, 1989), 78–81.

[21] Robert Mabro and Samir Radwan, *The Industrialization of Egypt* (Oxford: Clarendon Press, 1976), 135–37; 'Abd al-Mughni Sa'id, "Nidal al-'Ummal wa Thawrat 23 Yulyaw," *Al-Silsila al-'Ummaliyya* no. 30 (Cairo: Institute for Workers' Education, 1968); Muhammad Khalid, *'Abd al-Nasir wal-Harika al-Niqabiyyah* (Nasser and the union movement) (Cairo: Cooperative Institute for Printing and Publishing, 1971), 44–54.

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The Nasser government also took on a distributive function by subsidizing the cost of many essential food items and energy and by controlling the prices of many other goods. In addition, the government committed itself to ensuring that private capitalists complied with minimum wage standards and other laws protecting workers. While public sector workers depended on the state for their very livelihood, these other factors together served to institutionalize the economic dependence on the state of private sector workers as well.

Nasser explicitly promoted the idea of reciprocal rights and responsibilities, expecting that workers would express their appreciation for these measures by showing greater enthusiasm for their jobs and thereby increasing productivity. This was codified in the National Charter of 1962: "Every citizen should be aware of his defined responsibility in the whole plan, and should be fully conscious of the definite rights he will enjoy in the event of success."[22] Unions were formally charged with educating workers about the new national ethos and were expected to forgo making economic demands. After some initial hesitation, the leadership accepted this mandate.[23]

Soon after the initial experiment began, however, Egypt began to re-

TABLE 1
REAL WAGE INDEX AND HOURS OF WORK, 1959–67

Year	*Hrs Work/Wk*[a]	RWI/*Hr*[a]	*Weekly* RWI
1959	50	na	143
1960	49	na	141
1961	48	147	140
1962	47	151	141
1963	45	177	159
1964	44	190	168
1965	53	157	166
1966	52	161	167
1967	49	162	158

SOURCE: Abdel-Fadil (fn. 24), 33; reprinted with permission.

[a] Base year 1950. Based on the Survey of Employment, Wages and Working Hours (SEWWH) published by CAPMAS. The SEWWH includes salaries for managerial, technical, and clerical employees, which were generally higher than those of industrial workers during this period. It excludes establishments employing fewer than ten people; wages in such establishments were generally lower. Wage figures are obtained from employers and include the basic wage as well as all bonuses and incentives.

[22] Cited in Hrair Dekmejian, *Egypt under Nasir: A Study in Political Dynamics* (Albany: SUNY Press, 1971), 140.

[23] For details on this and the subsequent statements about union leaders presented in this section, see Marsha Pripstein Posusney, "Workers against the State: Actors, Issues and Outcomes in Egyptian Labor/State Relations" (Ph.D. diss., University of Pennsylvania, 1991), esp. chaps. 2, 4.

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treat from socialism. No new social legislation was introduced after mid-1965. Instead, investment expenditures were cut and a forced savings plan was imposed, with a half day's pay per month deducted from the salaries of all public employees and put into a special account. There were also some price and tax increases and several factory closures. A 1965 revision in the labor code reallowed paid overtime, although it did not make it mandatory.[24] These measures were supported, if not championed, by the leadership of the trade union confederation. After Egypt's defeat in the 1967 war the government initiated another round of price and tax increases, and there were renewed calls for workers to sacrifice for the "battle" (*al-ma'raka*). The workweek was increased from forty-two to forty-eight hours without compensation; forced savings were increased to three-quarters of a day's pay per month; and additional measures, such as cancellation of paid holidays and/or "donation" of compensations, were attempted in some plants over the next year.[25] Real wages in manufacturing fell in 1967 and remained below their prewar levels the following year. (See Table 2.)

Where protest activity had been quite low during the early 1960s, with only a few documented incidents through 1964, it escalated following the policies of retreat. Despite the support of union leaders for them, workers objected; Hussein reports a number of strikes at the end of 1966 in response to the renewal of overtime, as well as cases of workers evading disciplinary measures, engaging in slowdowns, and even sabotaging or

TABLE 2
REAL WAGE INDEX IN MANUFACTURING, 1966–73

Year	*RWI*[a]
1966	100
1967	95
1968	98
1969	106
1970	103
1971	99
1972	108
1973	107

SOURCE: Starr (fn. 28), 17.
[a] Calculated from the SEWWH; see Table 1, fn. a.

[24] John Waterbury, *The Egypt of Nasser and Sadat* (Princeton: Princeton University Press, 1983), 93–97, 409; Mahmoud Abdel-Fadil, *The Political Economy of Nasserism* (Cambridge: Cambridge University Press, 1980), 33–34.

[25] *al-'Ummal*, August 1967, pp. 4–5, 18–19; *al-Ahali*, October 24, 1984. Compensation, usually for meals, uniforms, shift work, or particularly dangerous or demanding jobs, is paid in addition to workers' basic pay and granted at the discretion of management.

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breaking machines to express their anger at the deteriorating economic and political situation. There are also indications that workers in some plants successfully challenged salary reductions in 1965, and there were numerous protests against them again in 1968.[26]

Wages recovered in 1969 and 1970, and there is no record of labor incidents during those years. Helwan, the most industrialized city in Egypt, did become a center for incipient labor activism at the time. Leftists organized mass meetings to discuss political and economic issues; these were sometimes attended by as many as four or five thousand workers. Harsh criticisms were leveled at both officials of the Arab Socialist Union (ASU) and company managers, and in 1969 the minister of the interior ordered the closing of the Socialist Institute, where the meetings were held. Labor activists then organized smaller meetings to take up different plant or occupational issues.[27] However, it was not until 1971, when wages were again eroding, that this groundwork yielded the protest activity that actually challenged Sadat after he assumed power. That year saw at least five incidents, the largest involving thirty thousand workers at the Helwan Ironworks, and the following spring workers struck several textile factories in Shubra al-Khayma. These actions correspond roughly to another period of declining real wages; but when wages improved, in the latter half of 1972 and throughout 1973, there is again no record of protest activity. (See Table 2.)[28]

As we have seen, Beinin explains the disappearance of strikes in the 1950s by arguing that nationalism surmounted class conflict in the minds of both workers and most leftist labor activists. Marxism might then posit the resurgence of collective protest in the mid-1960s as a sign that workers had begun to organize against the authorities. The specific timing and causes of the protests are problematic, though, since they suggest only restorative goals. Why would increasingly class-conscious workers not use collective action to seek more fundamental change in the system?

From the standpoint of a rational-choice position, purely opportunistic logic would dictate that strike activity would increase through 1964 (when macroeconomic conditions were favorable) and decline thereafter; the opposite occurred. We could explain the absence of strikes after 1952 by arguing that the new penalties for work stoppage made them costly,

[26] Mahmoud Hussein, *Class Conflict in Egypt, 1945–70* (New York: Monthly Review Press, 1973), 234-37; Posusney (fn. 23), chap. 4; *al-'Ummal*, March 23, 1968, p. 5.

[27] Interview with Sayyid Fa'id, Cairo, July 1988.

[28] The rise in real wages shown in 1972 followed an increase in the minimum wage ordered by the government in March of that year. See Gerald Starr, "Wages in the Egyptian Formal Sector," Technical Paper no. 5, *Employment Opportunities and Equity in Egypt* (Geneva: International Labour Office, 1983), 13–14.

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especially without an effective union leadership to surmount the free-rider problem. Then, however, to explain the resurgence of protest in the mid-1960s, we would need to show some change in these factors. But there was no apparent change in the propensity of the state to punish protesters, the nature of the official penalties for work stoppage, or the loyalty of union leaders to the regime.

Goldberg's version of rationality is also problematic here. First, his analysis of Nasser's economic policies conflates the 1960s, when the regime provided many workers with job security, with the 1950s, when it did not; the Revolutionary Command Council agreed in 1953 to provide workers with protection only from punitive firing for trade union activity.[29] Thus, without considering repression, Goldberg cannot explain why workers in the 1950s did not take advantage of the favorable economic climate to push even harder for job protection. Conversely, if the provision of job security explains the paucity of protests between 1961 and 1964, Goldberg cannot account for the increase in collective action thereafter, when the new job security provisions remained in effect. Furthermore, workers are looking for more than job security when they join unions: they also want higher wages and other benefits. Goldberg himself implies that Egyptian workers with relatively secure jobs engaged in collective action over these demands before 1952. Why then did they not pursue such gains after 1961, when the risks of job loss were minimal? Again, since he ignores the political and institutional factors, Goldberg can answer this only by implying that there is a certain critical package of real wages and benefits to which workers assign a high utility, whereas additions to it are less valuable. In this case, the expected gains of collective action would generally exceed their costs when the goal is to achieve or restore this package, but costs would exceed gains if the goal were to increase it incrementally.[30]

To explain the outbreak of protest under these circumstances Goldberg would still need to show how workers overcame the free-rider problem, but in order to explore the further implications of this logic, let us assume here that the necessary leadership was provided by the Left. The problem now is wage differentials, which in the public sector were a function of skill and experience, as Goldberg himself notes. Given the absence of protest before 1964, we must assume that the critical level of wages is that earned by the lowest-paid workers, since otherwise they would still be motivated to collective struggle to achieve that package. If that is the case, it should be these workers who hereafter protest take-

[29] Posusney (fn. 23), 181.

[30] Formally, this implies a critical point at which the slope of the utility function changes.

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aways; for higher-paid workers, whose incomes remain above the critical point even after takeaways, the costs of collective action would still outweigh the benefits. In other words, if it was older, more experienced workers who were most prone to *aggressive* collective action in the 1940s, it should be only the youngest and least skilled workers who see the need for *defensive* struggle after 1961. The available evidence thus far is insufficiently detailed to test this hypothesis; we can conclude only that the hypothesis is necessary for Goldberg's logic to be consistent, and demonstrated for his argument to be proved true.[31]

The moral economy I am proposing would have been incipient during the 1950s. Support for such a claim can come, first, from increasing urbanization, which brought increasing urbanization to the working-class peasants. The peasants who newly joined the working class may themselves have been reared in an agrarian moral economy; after careful consideration of alternative explanations for peasant protest in Egypt prior to 1952, Nathan Brown found that moral economy offers the best analysis of that phenomenon.[32] In addition, Beinin and Lockman's work on urban workers prior to 1952 hints that they harbored ideas about fair and just wages independent of market rationality.[33] Finally, Beinin also shows that while collective protest may have declined in the 1950s, workers in increasing numbers were taking their grievances to official state channels, the implication being that they had already come to see the state as a source of protection from the harmful effects of the free market.[34]

Moral economy accounts for the defensive nature of collective action in the 1960s and early 1970s with the argument that workers came to accept what the state had given them as an entitlement and were therefore angered at receiving less remuneration than before with no reduction in their responsibilities. It is perfectly consistent with moral

[31] Goldberg's argument should also imply different patterns of protest among public and private sector workers, although how they would differ is unclear. Since private sector workers did not gain the same protections as those in the public sector, job security should have remained their dominant concern and continued to be an incentive for collective action. Yet Goldberg could also argue that collective activity in the private sector would be weaker, precisely because the risks were higher. Which then is the dominant effect? Minimally, his logic should lead him to expect, as in the 1940s, variations in the frequency of private sector protest according to macroeconomic conditions, with interindustry differentials according to specific labor market conditions. Although my data are too imprecise to test the interindustry hypothesis, they do contradict this overall macroeconomic prediction, as I have already shown.

[32] Nathan Brown, *Peasant Politics in Modern Egypt: The Struggle vs. the State* (New Haven: Yale University Press, 1990).

[33] Beinin and Lockman (fn. 4), 96. I am grateful to Nathan Brown for pointing this out to me.

[34] Beinin (fn. 4, 1989), 78.

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economy to suggest that this anger would be greatest among the lower-income workers, whose very subsistence might be threatened by the takeaways. Indeed, Goldberg's risk-averse workers who will struggle only to protect a minimum level of income and benefits are starting to resemble peasants living in an agrarian moral economy.

Macroeconomic Conditions and Labor Protest: The 1970s and 1980s

In the wake of the 1973 Arab-Israeli war, Sadat's government again increased forced savings. This time deductions rose from three-fourths of a day's pay to a full day's pay per month. Then in the spring of 1974 Parliament passed the *infitah* (economic opening) law, which officially opened Egypt to Western trade and investment. Inflation, spawned by demobilization after the war, was exacerbated by the resultant influx of imports. Real wages fell in 1975 and remained below the prewar level the following year as well. (See Table 3.) Then the beginning of 1977 saw Sadat, under pressure from the International Monetary Fund (IMF), announce the reduction of subsidies on a wide range of items.

While workers remained quiet in the first year after the war, they responded to the aggravated inflation by renewing, and later intensifying, protest activity. This reaction began with four strikes in the fall of 1974. At least as many incidents occurred the following year, with some larger factories involved. There was also a demonstration at a central Cairo train station against the government's new economic policies. The workers' chants at the demonstration reveal their dissatisfaction with their eroding earnings: "Where is our breakfast, hero of the crossing?" (the latter phrase is a reference to Sadat) and "In the days of defeat, the people could still eat." Nineteen seventy-six saw a slight increase in the number of protests, including a strike by bus drivers that paralyzed parts of Cairo for several days.[35]

When the reduction of subsidies was announced in January 1977, workers in industrial establishments throughout the country walked off their jobs. Egypt erupted in rioting that left 79 dead, 1,000 wounded, and 1,250–1,500 arrested. There was also widespread destruction of property. As with the January 1975 demonstration, the workers' chants reflected a feeling that things were deteriorating. There were cries of "Down with Sadat," "Nasser always said, 'Take care of the workers,' " "It's not enough that they dress us in jute, now they've come to take our bread

[35] Interview with 'Abd al-Rahman Khayr, Cairo, October 1987.

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TABLE 3
SECTORAL WAGE TRENDS, 1973–87

Year	*Nominal Wages/Real Wage Index*[a] *Public Sector*	*Nominal Wages/Real Wage Index Private Sector*[a]	*Wage Ratio Public/Private*[b]
1973	491/100	421/100	1.17
1974	556/101	432/92	1.29
1975	576/94	473/90	1.22
1976	663/97	596/102	1.12
1977	813/108	744/115	1.09
1978	897/104	842/114	1.06
1979	1054/114	1022/129	1.03
1980	1289/113	1204/123	1.07
1981	1576/121	1418/127	1.11
1982	1928/127	1671/129	1.15
1983	2271/123	2120/134	1.07
1984	2613/128	2569/147	1.02
1985	2800/121	2800/141	
1986	3100/108	3100/126	
1987	3400/99	3400/115	

[a] Nominal wages in Egyptian piasters/week. From the SEWWH; covers blue-collar workers in establishments of ten or more workers only. Figures for years after 1984 are rounded by CAPMAS. I am grateful to Ragui Assaad for supplying me with this data. Real wage index is from Ragui Assaad and Simon Commander, "Egypt: The Labor Market through Boom and Recession" (Washington, D.C.: World Bank, 1990), 26; reprinted with permission from Ragui Assaad.

[b] Calculated by author. Ratios for 1985–87 are not computed because of the rounding of the nominal data.

away," and the simple word, "Nasser." The rioting ended only when the government reinstated the subsidies.[36] Numerous other measures to appease labor followed shortly thereafter. However, there was also a marked increase in the repression of the Left and labor militants. The leftist press was shut down, and virtually every leftist involved in the trade union movement was imprisoned at some time between 1977 and 1981.[37]

Meanwhile, hundreds of thousands of Egyptians left for jobs in the Gulf oil states. Migration bid up the cost of labor in the formal private sector, causing nominal wages there to surpass those in the public sector

[36] Raymond Hinnebusch, *Egyptian Politics under Sadat* (Cambridge: Cambridge University Press, 1985), 71; and Raymond Baker, *Egypt's Uncertain Revolution under Nasser and Sadat* (Cambridge: Harvard University Press, 1978), 165; Husayn 'Abd Al-Raziq, *Misr fi 18 wa 19 Yanayir* (Egypt on the 18th and 19th of January) (Cairo: Shuhdi Publishing House, 1985), 80–84; *MERIP* no. 56 (April 1977), 6; see also Ghali Shoukri, *Egypt: Portrait of a President, 1971–81* (London: Zed Books, 1981), 323.

[37] Khayr (fn. 35); interview with Barakat, Cairo, October 1987.

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for the first time. Real wages recovered in 1977 to surpass their prewar levels and grew more or less steadily through 1981. (See Table 3.)[38] As before, workers did not take advantage of the new prosperity to push for additional gains—on the contrary, there is written documentation of only one incident between 1977 and 1981.[39]

Hosni Mubarak, who came to power in October 1981, was initially not as forthcoming with workers as his predecessor. Mubarak seemed bent on reducing the burden of social welfare programs on the state treasury. The minimum wage was not increased, and in 1983 he announced that there was no money for workers' raises; budget tightening measures were introduced in some individual parastatals as well.[40] Nevertheless the increase in real wages continued during his early years, as shown in Table 3. Labor protests did resume in 1982–83. Although there was no repetition of the scale of the large public demonstrations of 1975–77, the number of incidents during these years does seem to rival the earlier period.[41] The coincidence of these actions with a time of rising wages makes this the only period when collective action appears aggressive, but the events of the subsequent years confirm the general correspondence between worker protest and deteriorating, rather than improving, economic conditions.

By 1984 oil prices were softening and some Egyptian expatriates working in the Gulf lost their jobs. Mubarak intensified his efforts to reform the economy. There were some price increases in 1984, along with an attempt to increase the workers' contributions to insurance plans. And 1985 brought a new round of price hikes, especially on energy products, as Egypt once again entered negotiations with the IMF and undertook currency reform. These measures accelerated inflation, and real wages began to fall in 1985. There were also frequent calls in the official press for privatization and public sector reform, threatening the benefits enjoyed by workers in the parastatals.[42]

Workers reacted with a marked upsurge in walkouts, factory occupations, and other actions. The level of struggle overall was considerably

[38] The trend shown in this table is confirmed by interviews of numerous workers from both the public and the private sectors.

[39] *Al-Ahali*, April 12, 1978. It is possible that more job actions did occur but went unrecorded because of a clampdown on the leftist press after the riots. One leftist told me there were as many wildcats during these years as in the 1974–76 period. He was in prison most of this time, however, and could not provide details, and I was unable to unearth any corroborating evidence.

[40] MEED, 1982 and 1983 volumes.

[41] The leftist weekly *al-Ahali* was my primary source of information on the frequency, causes, and nature of labor protest in the 1980s. Hereafter only supplemental references are cited.

[42] MEED, volumes for 1984–87.

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higher than in the mid-1970s; in 1986 alone, fifty incidents were reported. Some of these protests were quite protracted, prompting opposition members of Parliament to demand an inquiry into the causes of the unrest. With the economy continuing to deteriorate, this strike wave was still in progress at the end of the 1980s.

Marxism can again account for this pattern with the claim that workers are developing an increasing sense of the state as a class enemy; hence the strike wave of the 1980s is more extensive than its precursor of the previous decade. If Marxist leadership is required to channel this sentiment into collective action, the persecution of the Left in the late 1970s and early 1980s can explain the hiatus of protest at that time. Yet if class consciousness is growing, we should expect workers increasingly to challenge the private sector, to show solidarity across plants, and to struggle for systemic change. The succeeding sections will show that this was not what occurred.

For Goldberg the most salient feature of this period is the continued absence of enthusiasm for unions among workers, despite the fact that the *infitah* widened income inequalities; this is because there are now "returns to skill that are *sufficiently high* for workers to be more than willing to do without unions."[43] Thus Goldberg again raises the notion of a remuneration package above which the costs of organizing exceed the benefits; however, this package is now the earnings of those workers at the upper rung of the ladder, whose new alternatives to unionization are moonlighting or jobs in the Persian Gulf. How can this be reconciled with his earlier analysis of the 1960s, which led to the conclusion that the critical minimum was the wage and benefit package given to the *lowest*-paid workers? Unless repression is considered, we are again left with no explanation for why workers in the 1960s did not resort to aggressive collective action: if workers during *infitah* are willing to pay the not inconsiderable costs of moonlighting or prolonged separation from families in order to achieve higher wages, why would they not have paid the costs of collective activity to achieve higher wages in the 1960s, when the risks of protest were supposedly so low?

Goldberg's logic can thus go no further without the introduction of the macropolitical factors that he either ignores or treats only as effect. However, his argument can be reconciled with repression if we specify that the minimum package of wages and benefits, which must still be the wages of the lowest-paid worker, is so important to workers that they are willing to risk severe punishment in order to achieve or restore it.

[43] Goldberg (fn. 2), 157; emphasis added.

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This can account for the defensive protests we have seen, although we must again presume leadership by the Left to explain how the free-rider problem was surmounted in these cases. Then we must add that for any income above this minimum, the risks of punishment surmount the potential gains. This would explain the periods of quiescence; however, it renders Goldberg's second critical point—above which workers see no need for collective action even if its costs are extremely low—purely hypothetical, because it presumes that the costs of repression are always high.

Thus, while rationality arguments based exclusively on either labor market economics or political/institutional factors cannot work, rationality can be saved when the two approaches are combined. This requires, however, believing that workers make everyday decisions based on a highly complex utility function with at least one critical point and numerous items on either side of its equation; such an understanding increasingly resembles formalization of a moral economy argument. The latter does not require advanced mathematics to explain why workers protest when they do—only the simple understanding that the deterioration of a living standard workers had come to expect provokes anger.

Entitlement Protests: Reaction to Takeaways

If the relationship between protest frequency and economic conditions is too murky to discern definitively between the three perspectives, the superiority of the moral economy approach becomes clearer when one investigates the specific causes of workers' protests. Virtually all of the incidents reported above grew out of the workers' sense of injustice, a feeling that they were being denied something to which they were entitled. One such form of entitlement protest results when part of a worker's customary income is either taken away or not paid on time.

One of the few strikes of the early 1960s, at the Tanta Tobacco Company, was prompted by management's withdrawal of bonuses.[44] We saw above that the takebacks which accompanied the crisis of 1965 also engendered numerous protest actions. Workers' discontent was manifested in other ways as well: there was resistance when the leaders of the Egyptian Trade Union Federation (ETUF) urged members to work harder and sacrifice a portion of their earnings; and implementation of the ETUF's specific proposals was spotty at best.[45]

[44] *Al-Tali'a*, August 1976, pp. 55, 58. Subsequent references to incidents at this plant dating from the 1960s are from the same source.

[45] For details, see Posusney (fn. 23), chap. 4.

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Egyptian workers were initially responsive to the calls to sacrifice after the 1967 war. But when corruption and mismanagement in both the military and the public sector were exposed in its wake, workers began to question the sincerity of the "battle" and to resent its burdens. Sabir Barakat, who was involved in one of the protests at the time, explains how participants were motivated by a sense of injustice: "A law was issued in 1968 to deduct 25 percent of workers' compensations for what was called at the time the war effort. We were surprised when we discovered that this was being applied to our salaries which were really only pennies that didn't suffice—it fed us only because it had to. We couldn't bear any deductions so when this took us by surprise we started to resist it."[46]

Opposition to takeaways also provided the opening salvo to the period of heightened activism that accompanied the *infitah*. In September 1974 workers occupied the Harir Textile Factory in Helwan, protesting the forced savings, which they declared were no longer necessary. With disengagement talks under way, the rationale for workers' sacrifice in the name of fighting Zionism had disappeared. They won a change in the savings plan for workers throughout the country: the deductions were reduced by almost 60 percent to 1.5 percent of salary and were applied only to workers earning more than thirty pounds per month.[47]

A 1974 strike at the private sector Tanta Tobacco Company occurred when the owner suddenly switched workers from a monthly to a daily pay rate, resulting in about a 30 percent decline in wages. Workers sat in at a public sector plant that year after being denied their annual production reward when the production plan was not met—the company had in fact acknowledged that the shortfall was not the workers' fault. The bus drivers who struck in 1976 over the company's delays in paying their traditional holiday bonus ended their walkout when the bonus was issued.[48] The mid-1970s also saw the first attempts to forestall privatization, a form of takeaway from public sector workers since they would lose those benefits not commonly available to private sector employees.[49]

In 1982 Kafr al-Dawwar textile workers occupied their local union headquarters protesting reductions in their incentive pay. Workers of the

[46] Barakat (fn. 37). The incident described occurred in the Delta Ironworks Plant; all subsequent information concerning actions at this plant is from the same interview.

[47] Fa'id (fn. 27); *al-'Ummal*, February 3, 1975, p. 1; *al-Ahali*, October 24, 1984.

[48] *al-Tali'a*, September 1976, p. 55; *al-'Amal*, no. 141 (February 1975), 10–11; *al-Ahram*, September 21–22, 1976; *al-'Ummal*, September 27, 1976, p. 1, October 18, 1976, p. 1; *Rose al-Yusef*, no. 2520 (September 27, 1976), 4–5; Khayr (fn. 35).

[49] For more details, see Marsha Pripstein Posusney, "Labor as an Obstacle to Privatization: The Case of Egypt, 1974–87," in Iliya Harik and Denis Sullivan, eds., *Liberalization and Privatization in the Middle East* (Bloomington: University of Indiana Press, 1992).

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number 36 factory in Hilwan sat in in 1983, demanding a cost-of-living increase and payment of incentives that had been withheld. Four thousand workers occupied the Nasr Pipe Manufacturing Company plant in 1984 demanding payment of production incentives and rewards and the resignation of the new management, which had changed overtime rules. In March of that year workers staged a series of protests related to the refusal of the Daqhaliya Textile Factory to pay overtime; April saw four thousand workers occupy the Shubra Company for Engineering Products, charging that poor management had led to a decline in their incentive pay.[50]

The major national takeaway of 1984 was a new law doubling workers' contribution to health insurance and pensions, first issued in the early summer. With its implementation, workers at the Nasr Car Factory and several other large plants refused their paychecks, there was an in-plant demonstration in Alexandria, and a strike was threatened at the Transport Authority. These incidents led the prime minister to halt further application of the law and form a committee to reexamine the issue. Parliament reissued the law in late September, but this time implementation was staggered to avoid simultaneous protests. The deductions hit first in Alexandria, where more than ten thousand workers in two large textile factories refused their paychecks. They began in Kafr al-Dawwar two weeks later and coincided with a decision by Mubarak to raise prices on a number of subsidized items. The result was three days of strikes and riots in the city reminiscent of January 1977, as workers and other townspeople cut telephone lines, blocked transportation, destroyed railcars, and set fires.[51]

Al-Ahali charged that a high government policy committee called on public sector managers to lower supplemental pay in 1985—an accusation that is lent support by an upsurge in antitakeaway protests that year.[52] At the Miratex Company in Suez, workers struck for three days in February over declining incentives; the company closed the plant so the action would not spread to the other factories. A new protest broke out there in September over the company's failure to pay the traditional bonus for the opening of the school year. Night-shift workers at a Suez refining company occupied their plant in July to protest declining incentives, and in that same month there was a two-day sit-in over incentives at the Talkha Fertilizer Plant. In July workers at the East Delta Bus Company refused their paychecks, protesting reductions of up to 50 per-

[50] *Al-Sha'b*, April 27, 1984.
[51] MEED, October 19, 1984.
[52] *Awraq 'Ummaliyya*, no. 5 (January 1986), 6-7.

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cent in take-home pay; a similar action later occurred at a flour mill in Alexandria because of declining incentives and overtime pay. A one-day work stoppage at the Beni Suaf Weaving Company brought management promises to restore wages and purchase new equipment so that production, and hence incentive pay and bonuses, could increase.

In Mahalla Kubra three thousand workers struck the Sigad Textile Plant in May 1985, protesting management's failure to pay the May Day bonus; the action broke up when the company promised to issue the checks. Then in October twelve hundred workers from one shop at the large Misr Spinning and Weaving Plant (hereafter MS&W) refused their paychecks for three days because of declining wages. This protest resumed in February 1986, with a demonstration of five hundred workers in front of the local headquarters, calling for the union to adopt their demands.[53]

Some of the most prominent and prolonged protests over takeaways in the mid-1980s were at wholly private sector or joint-venture enterprises that had been created under the auspices of the *infitah* laws. When the tax incentives they had been granted expired, various of these companies began to scale back operations and/or cut workers' salaries. Thus, in February 1986 some seven hundred workers sat in for three days at Arabb, an electrical products joint venture, in protest of declining compensation and incentives. At the Arab Wood Furniture Factory (Atico), management stopped paying workers' salaries in May 1986 and announced in July that the factory would close, laying off 920 employees. The parliamentary committee that had to approve such closures rejected the company's request, but the company refused to honor the committee's decision. On August 12 and 13, more than 650 workers occupied the headquarters of the ETUF, demanding back pay from May and the reopening of the plant. Despite a court ruling in their favor, workers had not received any of their back pay by the end of 1987 and were threatening a new round of sit-ins.

A similar situation developed with the American-owned McDermott Company. The company had requested permission to suspend operations in July 1985 and began to dismiss workers before receiving an answer. In January 1986, in a measure workers charge was aimed at forcing them to quit, McDermott cut the wages of its remaining workers by 50 percent, in addition to deducting one-third of their salaries for the previous two months. In the fall workers began a series of protest actions aimed at company as well as government targets. The McDermott case

[53] *Al-Akhbar*, February 10, 1986.

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continued into the spring of 1987, when a court ruled that the company must rehire three hundred workers and sell assets to provide them with back pay. When the company refused to implement the ruling, the workers opened a new round of sit-ins.[54]

The theoretical issues surrounding takeaways are similar to those of protest in deteriorating economic conditions and have already been addressed in depth. For Marxism, such actions represent a problem only in the absence of aggressive struggles for more far-reaching change. This evidence weakens the case for rationality, however, because the sheer numbers involved would seem to belie the necessary prediction that defensive protest is the province of only the lowest-paid workers. If all workers have the *same* critical point in their utility functions, then better-compensated employees who participate in such defensive protests are either making mistakes in weighing their utilities or else acting altruistically in support of their less fortunate colleagues, and hence not selfishly rational. Alternatively, we can suggest that the critical point at which the value of additional income begins to decline varies for each worker, and in fact increases as the worker earns more. But now each category of workers has a different utility function, whose critical point is defined precisely by their present earnings, that is, what the state has seen fit to give them. We have then made rationality even more complex, but our increasing sophistication has told us nothing more than what moral economy already predicted: that workers will be inclined to protest when income they have come to expect is taken away.[55]

Entitlement of a Different Type: The Demand for Parity

A second type of entitlement protest revolves around notions of fairness in the wages earned by different types of laborers. Distributional norms reflect workers' evaluations of how much they contribute to production in relation to others. Egyptian workers have demonstrated a belief in parity, that is, that similar work should yield similar rewards. They have also exhibited opposition to widening disparities between the wages of manual workers and those of civil servants and company managers.

[54] A compromise agreement was finally negotiated between the Ministry of Labor, company officials, and workers' representatives in October 1987. *Al-Ahram al-Iqtisadi*, October 26, 1987.

[55] It follows logically that industries which are experiencing more takeaways than others should see a higher level of protest. This would therefore be an important test of moral economy. However, it would require documenting all instances of both takeaways and protests against them on an industry-by-industry basis; such detailed and accurate data were unavailable to me.

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After the 1961 socialist decrees, the discrepancies in benefits and protections available to public versus private sector workers became an issue for the latter. This was behind the several sit-ins and work stoppages at the private sector Tanta Tobacco Company in 1961 and 1962, as the workers sought and ultimately won the new minimum wage that had been declared for the public sector. Then, in the winter of 1972 the cabinet agreed in principle to entitle all workers in private sector establishments to the same minimum wage, working hours, and holidays that public sector workers received.[56] Delays in implementation of the decision, and resistance to it from company owners, prompted a large demonstration by private sector textile workers in Shubra al-Khayma and also several smaller strikes there over the next few months.[57]

Expectations of parity with public sector workers were also implicit in the demands of workers in the *infitah* companies mentioned above, since such layoffs could not have occurred in the parastatals. Some of the incidents also involved explicit demands for other protections afforded to government workers. The workers at Arabb, in addition to seeking restoration of their previous pay levels, also objected to the company's overall labor policies, which included arbitrary firings facilitated by false work contracts, oppression of temporary employees, and restrictions on union activity. Some seventy-eight hundred workers at the Johns Company, an American concern, struck for one day, demanding various compensations and the application of Egyptian labor laws to foreign companies.

Parity protests have also emerged within the public sector, when workers at one plant saw their counterparts at another receive an increase in the discretionary component of wages. Thus, the most prominent concern behind the 1971 action at the Harir Factory was the demand for the same 5 percent "exceptional" raise that had been granted to workers at a similar plant in Imbaba. Later that year, when the government was negotiating with the Helwan steelworkers, the president of the ETUF went to the nearby Harir plant and tried to preempt any new outbreaks of militancy by promising its workers parity with whatever the steelworkers won.[58]

[56] Like the 1962 legislation, this was limited to the largest industrial establishments. Moreover, the minimum wage was set lower for workers below age eighteen.

[57] *Al-'Ummal*, October 16, 1972, and November 6, 1972. Subsequent references to the 1972 incidents are from the same sources.

[58] Fa'id (fn. 27). Public sector workers usually receive an annual raise provided that their performance is satisfactory, whereas an exceptional raise (*'ilawa istithnaiyya*) is generally granted by government only in response to labor discontent. Unlike incentive pay, bonuses, and compensations, an exceptional raise is considered part of the workers' basic pay for

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A 1975 protest at the MS&W factory in Mahalla Kubra was the culmination of a prolonged effort by returning servicemen to receive full wages for time spent at the battlefront. The employees who worked at the factory during the war earned an hour's overtime per day, but the returning soldiers had received only the straight seven hours of compensation per day. After months of complaining to union, ASU, and management officials, the workers heard that a decree in their favor had been issued and that their counterparts in Harir had already begun to receive the overdue money. When management denied these reports, workers sat in at the local union headquarters demanding an investigation, and shortly thereafter they occupied the factory itself.[59]

That same year workers occupied the Shubra al-Khayma Cableworks, demanding parity in incentives and compensation with the employees of the nearby Delta Ironworks.[60] And while the bus drivers who struck in 1976 were seeking their traditional holiday bonus, they were moved to action only after learning that their counterparts in Heliopolis had recently received two such grants.[61] Spinners in Minya occupied their factory in 1983 seeking pay parity with workers in other shops. In 1986, after workers at the Esco Textile Factory in Shubra al-Khayma won a prolonged battle for holiday pay (see below), the protesting workers at the MS&W plant added this to their own list of demands. Their victory in turn sparked a series of similar actions in Mahalla Kubra.

While the socialist ideology of the 1960s praised the contributions to society made by manual workers, managers received the greater rewards. Workers accepted this but objected to government measures that would have widened these discrepancies or elevated the status and privileges of lower-level white-collar employees. Sabir Barakat's account of the 1968 protest against takeaways at Delta Ironworks reveals how such concerns contributed to the workers' actions:

> We had senior civil servants and workers who used to get something called gas compensation—if someone took their own car to work he got a compensation of 25 pounds per month. In those days a skilled worker earned only 12 pounds a month. So we made a campaign around the issue, saying

purposes of calculating future percentage increases. The key demand of the steelworkers was for a nature-of-work compensation (see fn. 25).

[59] *Al-'Amal*, no. 144 (May 1975), 10–14; *al-Ahram*, March 22–23, 1975.

[60] Shoukri (fn. 36); Barakat (fn. 37). Incentive pay is a monthly addition to workers' basic wages. It is based on production but decided by management within a range set by law. In addition to compensations, workers' basic wages can also be supplemented by an annual production reward and periodic special grants, usually given at the start of the school year, on May Day, and on major religious holidays.

[61] *Al-Ahram*, September 21–22, 1976; *al-'Ummal*, September 27, 1976, p. 1, October 18, 1976, p. 1; *Rose al-Yusef*, no. 2520 (September 27, 1976), 4–5; Khayr (fn. 35).

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"if there is a serious need to expand the Treasury, in front of you is an amount that can be borne by the people who can afford it. The worst that will happen is that they won't come to work in a private car and will have to come in company cars like the rest of us—which is really no sacrifice—yet you demand from us a very hard life." . . . They gathered us in the cafeteria of the company and gave rhetorical socialist speeches to us, saying, "If you have in your hand a piece of bread don't you give your brother a bite? Even if all you have in your hand is one piece and it isn't enough to satisfy you, you have to sacrifice a bite to the army for the war." The response of the workers was: "When we have in our hand a piece of bread and our brother is hungry, but we have a third brother who has an expensive cake, it's very natural that he who has the cake gives up half of it, then I'll give up a bite."

As we have seen, the January 1975 demonstration in Cairo was a response in part to the new ostentatiousness of the wealthy under the *infitah*. It was also precipitated by the prospect of increasing disparities between blue- and white-collar public servants. Toward the end of 1974, the Parliament had begun discussing an employment reform bill that proposed long-delayed promotions for thousands of civil service workers and revised the job classification scheme to eliminate the lowest-paid categories. Union leaders serving in parliament pushed to have the reforms extended to the public sector as well, but 'Abd al-'Aziz Higazi, then prime minister, spoke against the union's proposals. 'Abd al-Rahman Khayr circulated copies of Higazi's remarks among Helwan workers, charging that they reflected a hostility toward manual laborers characteristic of the new government. His coworkers not only agreed, he said, but were also incensed by newspaper advertisements for expensive and luxurious New Year's Eve celebrations at Cairo's fancy hotels, one of the first manifestations of the new flamboyance of the upper class. Khayr and others therefore planned their protest for the morning of January 1, at the time when the party goers would be heading home from the various nearby ritzy hotels. They demanded that the employment reforms be extended to blue-collar workers.[62]

The reform issue also had a role in the 1975 incident at MS&W in Mahalla Kubra. After the workers' initial action, the company president promised to release the soldiers' checks; but before the disbursements were made, the news broke that Parliament had decided on the employment reform for civil servants only. Workers responded immediately. They took over the factory the following day, demanding the overtime

[62] Muhammad Khalid, *al-Harika al-Niqabiyya bayn al-madi wal-mustaqbal* (The union movement between past and present) (Cairo: Institute of the Cooperative House for Printing and Publishing, 1975), 130–31; interviews with Khayr (fn. 35) and 'Abd al-'Aziz Higazi, Cairo, March 1988.

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pay, extension of the employment reforms to industrial workers, and healthier working conditions. When security forces stormed the plant three days later, the families of workers and other townspeople raided the homes of the companies' managers and put their luxury goods out for public display, reflecting a sense of injustice at the perception of widening income disparities between manager and employee.[63]

From a moral economy standpoint, all of these incidents involve perceptions of fairness and justice: while workers were seeking real gains in income, their protests were also restorative in demanding a return to previously established patterns of wage differentials. Rationality and Marxism would, by contrast, stress the aggressive aspect of these incidents. Marxism could now show that workers try to renegotiate the terms of their exploitation; and especially in the latter incidents, there is evidence of developing class hatred toward state managers. Marxists, though, are still left with the question of why this class consciousness did not go further, to a broader movement for a totally different program for society. For its part, rationality must address the problem of why workers engage in protest for incremental gains that were not worth the risks before someone else had obtained them. There is no logical reason why the utility of these gains would suddenly change, so we must assume that the answer lies in the expectation of achieving them; that is, once some workers get the increase, it seems a winnable demand for others who had previously considered it unobtainable. This, however, means discussing how workers' *expectations from the state* are derived, and that is the province of moral economy. Even more importantly, it also requires that workers actually solve their cost/benefit equations, and to do this they must assign money equivalents and expected likelihoods to each possible form of punishment. This was not necessary when protest was purely defensive, since we could say that workers would risk *any* punishment to protect their subsistence, but it is needed to explain collective action for incremental gains beyond that point. Our project to impute rationality to workers now proposes that they make complex and dispassionate calculations of the expected disutility of a beating, bullet, or whiplash. And, by trivializing these measures, it has also led to the perhaps unintended normative consequence of legitimizing them.

Entitlement Protests: Unmet Promises

A third type of entitlement protest is one that does involve new demands. These are, however, demands to which workers feel entitled because of

[63] *Al-'Amal*, no. 144 (May 1975), 10–14; *al-Ahram*, March 22–23, 1975; Shoukri (fn. 36), 240–41.

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promises made by company management, the government, or the courts. Thus, again, anger over unmet expectations is the impetus to workers' actions.

The largest incident of the early 1960s, at the MS&W plant in Kafr al-Dawwar, was such a protest. Prior to nationalization, the company's owners had routinely deducted a portion of workers' salaries for an insurance fund. After the state assumed this responsibility, workers expected that these back deductions would be returned to them. When they failed to win this demand after months of negotiation with the plant's new managers, they occupied the factory; the three-day protest ended with an agreement by the company for immediate partial repayment of the deductions.[64]

Unmet promises were also behind the 1972 Shubra al-Khayma incidents that followed the cabinet's decision to equalize benefits and protections between the two sectors. When the Ministry of Industry delayed in issuing the law limiting private sector working hours, hundreds of workers, believing that the government was reneging on the issue, walked out of their plants and marched through the town. A second march ensued the next day, when the newspapers published the minister's decree and the workers returned, only to find themselves locked out of the plants by employers hostile to the new legislation.

The February 1983 sit-in at the Nasr Company for Chemicals and Pharmaceuticals occurred after the company had reneged on verbal promises to increase incentive pay and compensations for lunch and back-shift employment. March 1984 saw four hundred workers sit in for several hours at a military plant in Helioplis, demanding payment of a previously announced raise. The above-mentioned protest at the Johns Company was primarily in response to the company's failure to fulfill a two-year-old promise to provide workers with health insurance. At the Esco Textile Factory, 1985 saw workers awaiting a decision on a court case arguing that a 1981 law entitled them to one paid day off per week. An initial ruling issued in their favor in October 1984 had been rejected by the management, which appealed the case. The situation boiled over in January 1986, after an appeals court again found in the workers' favor. When the company failed to recognize the ruling, workers refused their paychecks. That action brought no result, and on January 30 about ten thousand workers—more than half of all the company's employees—

[64] Interviews with M. Mutawalli al-Sha'rawi, March 1988, Kafr al-Dawwai and M. Gamal Imam, Cairo, October 1987; Fernand J. Tomiche, *Syndicalisme et certains aspects du travail en Republique Arabe Unie* (Egypte), 1900–1967 (Trade unionism and certain aspects of work in the United Arab Republic) (Paris: G-P Maisonneuve et Larose, 1974), 80. All subsequent references to this incident are based on the same sources.

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took over the factory. The strike ended on February 2 with the establishment of a ministerial "committee of five," including representatives of the local union and textile federation officials, to examine the issue; workers left their blankets in the plant to facilitate resumption of the occupation if they deemed it necessary.

The committee of five announced a compromise decision to pay Esco workers for two days off per month. Workers rejected this, refused their February paychecks, and won a new decision that two additional days off would be paid beginning the following year. The holiday pay would not be retroactive to the issuance of the 1981 law, however. Many workers accepted the deal only reluctantly, and several months later, in the context of ongoing tense relations between employees and management, there was a new occupation demanding the retroactive pay. This sit-in, though smaller than the previous one, nevertheless involved thousands of workers. After it was smashed by police, workers began to collect donations to take the back pay case to court.[65]

A strike of train drivers in the summer of 1986 is especially illustrative of how protests can erupt from prolonged official frustration of workers' expectations. The wildcat grew out of demands originally raised by the workers in a 1982 slowdown. The drivers waited for three years and got no response from either the government or their federation officials. Finally, in December 1985 the minister of transportation and the head of the Railway Authority met with them. These officials promised on the spot to resolve some of the issues and pledged to investigate the others and meet with the workers again. Four months later nothing had changed, and the workers began a renewed campaign of sending telegrams to the authorities. On July 2, after ten more weeks had elapsed with no official response, the drivers and conductors announced a sit-in at the headquarters of their league. The occupation ended later that night when the deputy minister of transportation came and promised workers that his superior would meet with them again on July 7. That day about one thousand workers gathered for the meeting, only to learn that it had been put off because the minister was again too busy to see them. The council of the league sent an urgent telegram to Mubarak, the prime minister, and the minister of the interior expressing their anger and frustration. Only when there was no reply did the trains stop running.[66]

[65] *Sawt al-'Amal* 5 (August 1986), 27–34.

[66] Ahmad Sharaf al-Din, Sabir Barakat, and Ilhami al-Mirghani, "Kifah 'ummal al-sikka al-hadid fi thamanin 'am, 1906–1986," *Sawt al-'Amil Notebooks* no. 1 (1986). The leagues are

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Rationality can explain the nature of these protests, but it must adopt a contrived and contorted form to do so, and even then it cannot account for their timing. Presumably the promises led workers to revise their expectation of gain and perhaps even lower their expectation of punishment. But, why, then, did collective action not occur right away? Perhaps time was needed for workers to surmount the free-rider problem; but the more time elapsed, the more expectations of gains should have dropped and expectations of risks increased. Moral economy has an answer for this: the workers' steadily mounting anger, which ultimately reached the point of making them willing to risk repression in order to restore justice.

Symbolic Protest: Workers with and against the State

In the moral economy proposed here, workers' expectations are aimed at the state. That this is true of public sector protests is obvious and is reinforced by the fact that government leaders and the ruling National Democratic Party (NDP) have also been targeted by public sector workers. For example, after the insurance deductions were increased in 1984, workers at one textile factory in Alexandria demonstrated with chants of "down with the NDP." Elsewhere antigovernment slogans were chanted in marches to the local headquarters of the NDP and several government offices.[67]

Private sector workers have also targeted the government in their protests, suggesting that they too view the state as the guarantor of their livelihoods. For example, the 1972 walkout by private sector textile workers in Shubra al-Khayma charged the government with reneging on promises to upgrade their benefits; as part of the protest workers blocked a motorcade carrying the prime minister. Protests by workers at McDermott included sit-ins at the NDP offices in Suez and visits to the minister of labor at his home. When they were denied the annual production bonus in October, five hundred workers occupied the company's headquarters in Cairo and later sat in in front of Parliament, and after the company refused to implement the spring 1987 court ruling, the workers began a new round of sit-ins at NDP headquarters and also caravanned from the Suez to the president's palace in Cairo.[68]

Because of a number of factors—the interference of the government

informal rivals to the official trade union movement, which originated in the 1950s, when civil service workers were not permitted to unionize.

[67] MEED, October 19, 1984.

[68] *Al-Ahram al-Iqtisadi*, October 26, 1987.

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in union elections, the fact that most senior union officials are affiliated with the NDP, the historic conjoining of the posts of ETUF president and minister of labor, and the frequent unresponsiveness of these union officials to wildcat protests—some workers have come to see the confederation itself as an instrument of the state. Hence the sit-in at confederation headquarters by the private sector Atico workers. In numerous of the other incidents cited here, workers occupied the office of their local, seeking official union support for their demands.

But if workers expect the government to ensure that they are fairly compensated for their labor, they also exhibit the belief that they have an obligation to the state. In particular, the nature of labor protest in Egypt suggests that workers did adopt the Nasserist ideology of the 1960s, which stressed reciprocal rights and obligations. Workers see their responsibility as lying in production, to contribute to the postcolonial modernization and development of their country. This is evidenced by the relative scarcity of actual strikes and the preference for protests that express dissatisfaction but do not interfere with work. Workers themselves have eschewed actual work stoppages and use them only as a last resort.

The closest alternative to strikes is the in-plant sit-in, during which management is ejected or ignored and workers continue running the factory on their own. This tactic was initiated in the 1963 incident at Kafr al-Dawwar, where the men continued round-the-clock production for several days to demonstrate their loyalty to the country but also electrified the fence around the plant to prevent security forces or government officials from getting in. The thirty thousand Helwan steelworkers who protested in 1971 maintained production while sitting in. And Harir workers also demonstrated inside their plant in 1971; their 1974 protest against forced savings was yet another factory occupation. The 1975 sit-in at Mahalla Kubra lasted three days, during which time production continued. Likewise, the workers who occupied the Shubra al-Khayma Cableworks in 1975 kept the lines going but refused entry to government or union officials. In the first action of 1984, at the Nasr Pipe Company, the workers actually doubled output during their occupation. When the Esco workers occupied their plant in 1986, they continued working for two days; only on the third day, when no responsible officials had come, was work suspended.

A second symbolic technique is a boycott on cashing paychecks. It tends to be used in the public sector, where workers find it effective because it interferes with government accounting procedures. The boycott was first used by the workers of Delta Ironworks in their 1968 protest against salary deductions. By refusing their paychecks, but continu-

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ing to work, the workers demonstrated that they remained loyal to the national "battle."[69] The next documented use of this tactic was when twenty-six hundred workers at the Tura Cement Factory refused their paychecks for two days in February 1982. We have already seen that some ten thousand workers in Alexandria boycotted their checks in 1984; boycotts also occurred at several large factories in 1985 and 1986.

Yet another form of protest involves seeking redress of grievances by sending telegrams to government officials. Besides showing the workers' reluctance to strike, such messages also provide insights into workers' expectations of themselves and the state. Thus, the initial reaction of workers at Delta Ironworks to Sadat's 1977 removal of subsidies shows both their fear of, and disgust with, the government:

> I suggested that we send a telegram to the officials denouncing them, but the other workers . . . were afraid of denouncing the government. So in the end we decided to send a very satirical telegram. It read:
>
> > To the President of the Republic:
> > We thank you for increasing prices, and raise the slogan, "more price hikes for more hunger and deprivation." May you always be a servant of the toiling workers.

The protest organizers collected signatures and a small contribution from six hundred workers in the plant in order to send this message.

Railway workers first wired their concerns to the president, the prime minister, and other high government officials in 1982 and then continued to press their case in this manner for the next four years. The urgent telegrams sent by the league to Mubarak in a final effort to ward off a strike is particularly revealing of the workers' moral economy beliefs. It concluded, "We are all waiting here at the league headquarters. . . . Some of the trains have already stopped running *in abandonment of our responsibilities*. The situation is getting more serious. It is almost 2 P.M. and at 6 P.M. this evening all of the trains will stop running."[70]

Significantly, even in those rare instances where workers have raised aggressive demands in the context of favorable macroeconomic conditions—the type of collective action that conforms to the simplest rational-choice model—they have used symbolic protest to press their case. Specifically these incidents were a 1982 sit-in by six thousand workers at the Kalkha Fertilizer Plant demanding a lunch compensation and revision of salary and promotion schedules, and a slowdown that same year by railway workers seeking a cost-of-living adjustment, accident insur-

[69] Barakat (fn. 37).
[70] Sharaf al-Din, Barakat, and al-Mirghani (fn. 66), 28–30; emphasis added.

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ance, increased compensation for uniforms, and elimination of the requirement that drivers be personally responsible for paying compensation to victims of train accidents. The largest incident of 1983, a protest demanding a nature-of-work compensation at the Helwan Light Transport Factory, was another factory occupation.[71]

Moral economy explains workers' eschewal of strikes by their belief in their responsibilities. Marxism can cast the same phenomenon in terms of the submerging of class to national consciousness. This should imply minimally that workers in *infitah* companies have a greater propensity to strike, with an intermediate level in firms held by private but domestic capital. The data do not seem to confirm this, however. Either explanation can be reconciled with rationality if we specify that workers obtain a positive utility from the feeling of contributing to the national project, although this does stretch the definition of selfishness. We could dispense with this added complexity and explain symbolic protest merely as a strategy to avoid punishment if it could be shown that such actions accomplished that goal. The next section will demonstrate, however, that even symbolic protest was usually met with repression.

The Carrot and the Stick

Despite sharp differences in overall economic strategy, the Nasser, Sadat, and Mubarak regimes pursued very similar policies with regard to labor protest. The actions have been quickly put down by a combination of repression and concession. Only the largest incidents are ever mentioned in the official press, and these are customarily blamed on outside agitators. Preventing any escalation of the protest, and maintaining an image of national harmony and worker satisfaction, thus seems to be far more important to Egypt's rulers than minimizing financial concessions. At the same time the consequence of these actions is to reinforce the moral economy and thereby pave the way for future protests.

Indicative of the arbitrariness of power in Egypt is that the nature of punishment itself appears to derive more from regime perceptions of the severity of the incident than from any precise legal framework. When only a single small plant was involved, the immediate handling of the problem was usually left to the discretion of local police; national security agencies and government figures were called in only if the protests could not be broken up quickly. However, protests that involved issues of na-

[71] *Sawt al-'Amal* 3 (October 1985), 5; for an explanation of nature-of-work compensation, see fn. 25.

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tional policy, large numbers of workers, and/or more than one plant brought rapid intervention at the highest levels of government.

Thus, when the Tanta workers sat in in the early 1960s, the company summoned local police. The men were beaten with rifle butts, and their union leaders were blindfolded and taken to the police station, where they were kept concealed. Ultimately, federation officials summoned from Cairo negotiated their release, along with a contract in which workers won restoration of the bonuses as well as other, new benefits. But the workers who refused their paychecks at Delta Ironworks a few years later were taken immediately to state security police. Their intimidation there had an effect, as Barakat relates, but here too concession was also involved in ending the protest:

> They arrested twenty-two workers. . . . They came back two days later completely silent and went to pick up their checks. We tried to get them to talk but they refused to say a word. After that the stand of the workers began to weaken. But 'Abd al-Nasir in those days was smart—on the same day he sent orders that these deductions shouldn't harm the salaries of the workers and they returned the deductions to us—and that ended the situation.

Around the same time, the minister of defense repealed a decision to deduct the transportation compensation and any salary increases due to promotions from workers at another military plant; all back deductions were returned.[72]

Local police sometimes treat workers with particular brutality. Three of the leaders of the 1971 Harir protest were tied to their cell doors and periodically beaten with clubs and whips. Only the intervention of Mohammed Heikel, then editor-in-chief of *al-Ahram*, brought an end to the beatings and got medical care for the victims, who still bear scars from this incident.[73] After police arrested workers during the 1985 Sigad strike, one woman was beaten in front of her husband, and the arrest of a male worker while his wife was in labor caused her to name the baby Ifraj (release). The Sigad detainees were placed in cells flooded with sewage, forcing them to stand until their arraignment.[74] Not surprisingly, though, the volume of arrests appears to be greater in the more prominent incidents. When security forces stormed the Helwan Ironworks Plant in 1971, some three thousand workers were arrested. Seventy-six of the protesters who blocked the prime minister's motorcade in 1972 were detained. Significantly, public sector workers have been able to re-

[72] *Al-'Ummal*, March 23, 1968.
[73] Fa'id (fn. 27).
[74] *Rose al-Yusef* (March 17, 1986), 5.

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turn to their previous employment after release from prison, although those singled out as organizers have sometimes been subjected to punitive transfers.

Attempts by security forces to suppress peaceful protests have sometimes contributed to their escalation into violence. The 1975 New Year's demonstration turned into a miniriot when police attempted to prevent the protesters from marching to a nearby government building; dozens of arrests and a witch-hunt for the organizers ensued. Two thousand were arrested when security forces raided the MS&W plant in Mahalla Kubra in 1975, and as many as fifty workers may have been killed that day.[75] Barakat argues that police initiated the violence in January 1977: "On the second day we struck at the factory. . . . We went out and demonstrated. They tried a tactic on us—they said they would search us as we were leaving. They took workers in their cars to examine them. There are three bridges near the plant. . . . They dropped workers off at each one, in order to divide us. The result was that there was a demonstration at each bridge, and while each group was marching it was attacked by the police."[76]

Each of these events was, however, also met with significant concessions. Sadat, for example, condemned the 1971 Helwan sit-in as an "undemocratic act" but quickly promised to investigate and ameliorate workers' grievances. In June 1975, following the series of protests documented above, the employment reform measures were approved for public sector workers.[77] And while the government officially blamed the 1976 bus drivers' strike on communist agitation, Sadat met immediately after it with leaders of the drivers' federation—his first meeting with midlevel union officials—to discuss the workers' other grievances. A similar meeting was held between the minister of transportation and leaders of the railway workers' federation; it resulted in an increase in their annual production reward.[78]

But as we have seen, Sadat quickly repealed the decision to lift subsidies. Furthermore, soon thereafter he held his first formal meeting with ETUF leaders since before the 1973 war and agreed to demands not only for wage increases but also for greater union input into management and governmental decision making. In addition, the minister of labor issued a number of new directives aimed at speeding the settlement of individ-

[75] Shoukri (fn. 36), 240–41; Khayr (fn. 35).
[76] Barakat (fn. 37).
[77] *Al-'Ummal*, June 23, 1975.
[78] *Al-Ahram*, September 21–22, 1976; *al-'Ummal*, September 27 and October 18, 1976; *Rose al-Yusef*, no. 2520 (September 27, 1976), 4–5.

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ual and collective workers' complaints and more generally at improving industrial relations. Periodic wage increases in both sectors continued over the next few years.[79]

Despite Mubarak's moves toward political and economic liberalization, this combination of repression and concession has continued. At the Hilwan Light Transport Factory, security forces armed with tear gas, clubs, and electric prods surrounded the plant and broke the occupation, yet management agreed to the workers' demand.[80] Three workers died in clashes with security forces in the 1984 Kafr al-Dawwar riots, and there were over 120 arrests. As a result of the riots, though, Mubarak repealed the price hikes on pasta and cooking oil.[81] At the MS&W plant in Mahalla, security forces raided the wool factory where workers were sitting in and arrested 160. The next day the company closed the plant, putting the workers on forced vacations, and another 257 workers were arrested outside the factory.[82] The second Esco sit-in was likewise smashed by the police, who stormed the plant on the third day of the protest and arrested over five hundred protesters.[83]

The heaviest hand was reserved for the train drivers. The government called out the army to run an emergency bus service, and the central security police to attack the striking workers. They were clubbed, kicked, and beaten, and over one hundred were arrested. Security police continued to hunt down the leaders of the action, and those who were arrested were dealt with harshly. Some were denied food and bedding for two days. Unlike any other case cited here, the workers were charged with violations of the emergency laws and arraigned before supreme state security courts—courts that are supposed to deal only with cases of armed terrorism and that are empowered to impose indefinite sentences. The speed and severity of this response would seem to reflect the centrality of the services suspended by the drivers, and the high visibility of a railway strike relative to the protests at individual industrial establishments. Nevertheless, after the strike was broken the minister finally found the time to meet with groups of workers. Most of their demands were met, and some were given financial rewards for agreeing to return to work.[84]

It is instructive to contrast this with the government's response to the protests at the *infitah* companies, where workers might arguably feel less

[79] For details, see Posusney (fn. 23), chap. 5.
[80] *Sawt al-'Amal* 3 (October 1985), 5.
[81] MEED, October 19, 1984.
[82] *Al-Akhbar*, February 10, 1984.
[83] *Sawt al-'Amal* 5 (August 1986), 27–34.
[84] See also *al-Akhbar* and Reuters from July 9, 1986.

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strongly that their labor was contributing to the national project. None of the incidents in foreign-owned firms met with the same official repression visited upon workers in facilities that were wholly Egyptian owned. This suggests that the regime is ambivalent about these concerns, or at least does not want to risk inviting more debate on their role by appearing to side with the companies.

There is then some suggestion that punishment is swifter and more deliberate when an actual work stoppage is involved. We have also seen that workers sometimes begin a struggle with a relatively mild tactic, such as sending telegrams, and then escalate to more pronounced and thereby riskier actions like paycheck boycotts and plant occupations. Rationality can thus account for workers' reluctance to strike without assuming, as moral economy does, that they feel some commitment to the state; workers are simply trying to avoid the harshest reprisals. Such an explanation does require assuming, however, that workers assign precise disutilities, in monetary terms, to each possible form of punishment.

For moral economy this complex and ultimately authoritarian exercise is not necessary. While moral economy does posit workers' commitment to production, it is not inconsistent to suggest that their anger toward the state mounts as their demands go unmet, which inclines them to take more radical action and face greater risks until the government fulfills *its* obligations. At the same time, to the extent that repression is more severe for actual strikes, this would only serve to confirm workers' beliefs that their contributions to production are important and worthy of remuneration. In this regard, both aspects of the government's policy toward labor protest serve to reinforce the moral economy in the eyes of the workers. Hence the multilateral agencies and academicians who are urging Egypt to adopt market-oriented reforms should be the first to insist that the long-standing prohibition on strikes be lifted.

Conclusions

With the possible exception of the January 1977 riots, one could choose any given point in time here and observe, with accuracy, that the great majority of Egyptian workers were not engaged in any form of collective protest. This study has privileged collective action in the belief that inertia does not bring about change whereas protest does. At the same time it is in the effort to explain the emergence of collective action that the superiority of moral economy versus the other two perspectives becomes apparent.

Moral economy posits that protests erupt when feelings of entitlement

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have been violated. We have seen that most of the collective protests that occurred in Egypt after 1952 conform to this expectation. For Marxism, the problem is why more collective struggle, and of a different type, did not occur. If class consciousness entails recognizing state managers as the enemy, workers should be advancing a program for change, not restoration. At the same time, the private sector, both domestic and foreign, should come under increasing attack as workers embrace socialism. Moreover, we should see a growing sense of solidarity among workers across individual plants, whereas in the thirty-five-year span covered here there occurred only one explicit solidarity action.[85] If the failure of workers to struggle aggressively for a new society does not condemn the theory, we must conclude that the Egyptian Left has not provided workers with a vision for an alternative future.

In explaining workers' day-to-day behavior, the theory of *utility* maximization can be preserved, but its equation with *income* maximization must be abandoned. In this Goldberg led the way by suggesting that Third World workers, like peasants, are risk averse and prioritize subsistence. Selfishness must also be questioned; the notion of expected utilities here has come to incorporate more and more of what moral economy tells us about reciprocal expectations and standards of fairness and justice. Still, when it comes to explaining collective protest the two theories diverge: whereas moral economy sees protest as emanating from anger over the disappointment of these expectations—with this anger making workers willing to risk repression—rationality must reduce each form of potential punishment to a cash equivalent and demonstrate that its expected disutility is less than the expected gains of collective action. It is more than absurd to suggest that workers make such a detached and dispassionate calculation. Ultimately, it appears as an authoritarian inquiry into which forms of punishment serve as the most effective disincentive to protest.

Are these findings generalizable beyond Egypt? Clearly certain specific features of the moral economy described here resulted from the socialist programs and ideology promoted by Nasser in the early 1960s. Since similar policies were adopted in much of the Middle East and sub-Saharan Africa, it is reasonable to suggest that the same patron/client relationship between workers and the state developed elsewhere in these regions. There may also be different types of moral economies involving labor in other parts of the Third World. The broader claim here, however, is not for moral economy per se but rather for the association be-

[85] In 1982 workers at the Nasr Fertilizer Plant in Suez occupied one of the plant's administration buildings in support of the Talkha workers.

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tween anger and labor protest in repressive societies. It may be that rationality can explain collective action in systems that are both economically and politically liberal but that "moments of madness" are required to surmount the barrier of fear surrounding protest in countries like Egypt.

The rejection of Marxism and rationality as explanations for labor protest has occurred here at the macropolitical level, but there may be phenomena at the microlevel that these perspectives could help to explain. In particular, while anger is seen here as a necessary condition for protest to occur, it may not be sufficient; two plants that follow the same economic policies toward workers might differ in their "protest proneness" according to the workers' willingness to cooperate with each other and/or their organizing capabilities.[86] Here both rationality, in the form of game theory, and Marxism might have something to contribute. While further research would be needed to demonstrate this, it seems likely that both the size of the plant and the way in which production is structured would influence whether or how quickly feelings of solidarity can develop. It also appears that more protests occurred at plants that historically have had a leftist presence, such as Harir and Delta Ironworks. This suggests that Marxist efforts to promote class consciousness do help to instill a sense of collective identity among workers. Relatedly, the periods of most intense struggles, the 1974–76 and 1984–87 strike waves, coincided with the times that leftists had the greatest freedom to operate; by spreading the news of incidents ignored by the official newspapers, the leftist press may help workers realize their potential to score victories against the state. The Left cannot compensate for what the state takes away and does not return in concessions, however, and Egypt's Marxists have apparently been unable to articulate an alternative vision of society that workers find realistic and worthy of struggle. It may be the ability of the Islamic movement to provide these material and psychic incentives that accounts for their recent inroads into the workers' movement.

[86] Scott (fn. 6) suggested much the same for peasants in his discussion of agrarian rebellions (p. 4). See also idem, *Weapons of the Weak: Everyday Forms of Peasant Resistance* (New Haven: Yale University Press, 1985), 242–47, 320–26.

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Review Article

DEMOCRATIC INNOVATION
South Africa in Comparative Context

By IAN SHAPIRO*

Adam Przeworski. *Democracy and the Market*. Cambridge: Cambridge University Press, 1991, 210 pp.
Giuseppe Di Palma. *To Craft Democracies: An Essay on Democratic Transitions*. Berkeley and Los Angeles: University of California Press, 1990, 248 pp.
Samuel Huntington. *The Third Wave: Democratization in the Late Twentieth Century*. Norman: University of Oklahoma Press, 1991, 399 pp.
Donald L. Horowitz. *A Democratic South Africa? Constitutional Engineering in a Divided Society*. Berkeley and Los Angeles: University of California Press, 1991, 293 pp.

I. Democracy's Contested Meanings

MANY Westerners who have recently spent time behind what used to be the iron curtain have remarked that although *democracy* seems to be readily affirmed by all and sundry, it is hard to know just what the word means for people who have lived their entire lives in undemocratic systems. Like *market*, the other great catchword of the 1990s, it seems in this part of the world to stand more for what people feel has been lacking in their lives than for any clearly conceived set of social or institutional arrangements. Indeed, the frequency with which Russians and East Europeans use the two terms interchangeably reinforces the speculation that they function as little more than vague symbols of an inchoate good that people believe they have been denied.[1]

Does this matter? Does sustainable democracy require people to agree on the meaning of democracy? Does it require them to understand how democracies work? Does it depend on deep-rooted commitments to democracy in a political culture? The answers to these questions depend in good measure on what we mean by sustainable democracy. The authors

* Good suggestions, not all of which were heeded, were received from David Apter, Nancy Bermeo, David Cameron, Bill Foltz, Cindy Horan, Jeff Isaac, Courtney Jung, Boris Kapustin, Deborah Kaspin, Mimi Keck, Elizabeth Kiss, Robert Lane, Adolph Reed, Jr., Bruce Russett, Rogers Smith, Peter Swenson, Leonard Thompson, and Michael Wallerstein.

[1] For my account, see Robert Dahl and Ian Shapiro, "Impressions from the Soviet Union," *Dissent* (Summer 1991), 342–45.

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under review here all work, either explicitly or implicitly, with a view of democracy that is variously described as proceduralist, minimalist, anti-substantive, and rule-oriented—a view that is identified with Joseph Schumpeter's classic 1942 account of procedural democracy, *Capitalism, Socialism, and Democracy*.[2] Huntington takes from Schumpeter the definition of democracy as "that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote," which, he says, had by the 1970s effectively displaced more expansive definitions that invoked notions such as "the will of the people" or "the common good." Following Robert Dahl, he holds that for a country to be democratic in his sense, it is sufficient that there be contested elections based on universal franchise, as well as the civil and political freedoms of speech, press, assembly, and organization "that are necessary to political debate and the conduct of electoral campaigns" (pp. 6–7).[3] Przeworski also rejects attempts to identify democracy with the general will or the public good. He defines it instead as "a system of processing conflicts" in which parties that lose elections accept this outcome and wait for the next election, rather than try to destroy the regime to attain their goals (pp. 10–12). Di Palma argues that a realistic view of democracy must be disengaged "from the idea of social progress"; democracy exists when the idea of coexistence becomes sufficiently attractive to powerful groups that they can be brought to agree on the basic rules of the political game (pp. 23, 28, 109). Horowitz also defines democracy procedurally, the essential components being a universal franchise and majority rule (pp. 98–100).

The Schumpeterian account modified classical democratic theory not only by junking all substantive conceptions of democracy, but also by abandoning the representational aspects of classical democratic theory. Schumpeter modeled his democratic theory on the neoclassical account of markets. Hence, just as firms compete for business in economic markets, would-be political leaders compete for votes. Although political elites must in some minimal sense be responsive to voters (or at least less unresponsive than their competitors), politics is not about representation; it is about selling a product—governmental output—in exchange for votes.

The abandonment of representativeness as a criterion of democracy gives the Schumpeterian model a top-down, elitist quality that is re-

[2] Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper and Brothers, 1942).

[3] See Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971).

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flected in several of these works. Di Palma, for instance, is so preoccupied with the conditions that can bring elites to agree on the rules of the game that he never considers the significance of what the players actually do and how they respond to their own constituents. If betrayal of their constituents is the price of reaching the kind of mutually reassuring agreement that Di Palma regards as essential, then the elites will have crafted their survival at the expense of what many regard as a democratic political order. Huntington confronts this possibility explicitly, remarking of the most recent wave of democratizations that whereas the collapse of authoritarian regimes was often exhilarating, the creation of democratic regimes often brought disillusionment: "Few political leaders who put together the compromises creating [democratic] regimes escaped the charge of having 'sold out' the interests of their constituents." Furthermore, he continues, this disaffection was, "in a sense, a measure of their success." This is because there is a trade-off in "the democratic bargain" between participation and moderation. Leaders moderate their demands in order to be included, and those who fail to realize that moderation "is the price of power" are marginalized (pp. 165, 169, 208).

Przeworski departs from the Schumpeterian model insofar as he does regard representativeness as a criterion of democracy (pp. 182–87). However, he also thinks it more or less inevitable that party leaders, once in power, ignore the interests of their followers during democratic transitions, so that negotiated democracy becomes increasingly authoritarian in practice. Of these four authors, Horowitz alone attends systematically to the relations between leaders and followers. In an argument that will be considered in some detail below, he makes the case that democracy can function in severely divided societies only when elites from one group find themselves with incentives to cater to the interests of grassroots members of other groups.

The Schumpeterian conception of democracy that informs these works in varying degrees has often been criticized for the limited character of its commitment to democratic politics.[4] But there is a response to the objections—that minimal as the Schumpeterian conception might be, it is better than nothing. If one starts with the classic ideals of democratic theory or even the political reality in countries that have been democratic for some time, it might reasonably seem impoverished. But if one starts with either civil war or authoritarian regimes and the complete absence of all democratic process, then a model that requires the circulation of elites through a competitive electoral process is not to be

[4] For many of the standard arguments, see Ian Shapiro and Grant Reeher, eds., *Power, Inequality, and Democratic Politics* (Boulder, Colo.: Westview Press, 1988).

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sneezed at. Di Palma takes this tack explicitly, insisting that democracy's disengagement from the idea of social progress contains a silver lining: if (democratic) coexistence is given precedence over social and economic reform, then expectations are lowered and groups hostile to democracy are more likely to accommodate themselves to the nascent democratic order (pp. 22–23). Huntington takes a similar view implicitly, by holding that the test for successful democratic consolidation is two successive turnovers of power following elections. As if to underline the significance of nondemocratic starting points when evaluating democracy, Huntington notes that his is a relatively tough test that was not clearly met in the United States until the Jacksonian Democrats surrendered power to the Whigs in 1840 and that has not yet been met in the contemporary world by such nations as Turkey and Japan, despite their democratic reputations (p. 267).

II. Schumpeterian Democracy and South African Politics

I will return to the adequacy of this response to critics of Schumpeterianism later. I want to begin by granting it for the purposes of discussion and considering what light these various books that embrace it shed on the possibility that sustainable democracy might emerge in South Africa in the medium-term future. Among them, only Horowitz's book is concerned exclusively with South Africa. Huntington deals with South Africa as part of a comparative account of the "third wave" of attempted democratizations that occurred in the world between 1974 and 1990. (The first and second waves occurred from 1828 to 1926 and from 1943 to 1962, respectively.) Przeworski and Di Palma do not deal with South Africa at all; their accounts are based on recent developments in Southern and Eastern Europe and in Latin America. All four nonetheless advance general arguments that are relevant to thinking about democratic innovation in South Africa, and it is from that standpoint that they are considered here.

If any part of the world supplies us with prima facie reasons for taking seriously the case for Schumpeterian minimalism, it is postcolonial Africa, where attempts to create Western democracy have failed so dismally. As the British Empire was dismantled, parliamentary institutions cloned from the Westminster model were dumped on countries for which they were evidently ill suited. If there had ever been traditions of democratic politics in Africa, they were long since undermined.[5] For

[5] On this contentious subject, see Noël Mostert, *Frontiers: The Epic of South Africa's Creation and the Tragedy of the Xhosa People* (New York: Knopf, 1992); and the penetrating review

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over a century ancient ethnic rivalries had been manipulated, sometimes by colonial administrators, sometimes by local elites, as modern "tribal" divisions were brought into existence. If these manipulations served the purposes of various elites, they also revealed that there are limits to how much ethnicity is manipulable and that those limits are not easily identified. The institutional and national boundaries that had been created by imperial fiat flew in the face of little-understood, yet deeply rooted, local and regional allegiances. Architects of democracy—both postimperial and local—wrongly thought that indigenous allegiances would be either co-opted or ploughed under by the forces of modernization and African nationalism.[6]

The results were catastrophic. Constitutions were swept away, ignored, or buried in systemic nepotism and corruption, leaving subjected populations at the mercy of self-appointed or (at most) once-elected leaders, and of single-party states. Within only a few decades the continent found itself awash in the blood of war and civil war, with millions living in abject suffering and poverty and having little hope for improvement in the foreseeable future. Even the oil-rich Arab countries of the African north (with the possible exception of some glimmerings of hope in Egypt in the 1970s) showed scant evidence of evolving in democratic directions; their Islamic creeds seemed to many in retrospect to be incompatible with the basic prerequisites for democracy.

At the other tip of the continent stood that great anomaly, the apartheid state of South Africa. Although it no less than any other modern African country was a mercurial artifact of British imperialism, both its European and indigenous heritages were perhaps more complex than elsewhere on the African continent. On the European side, a century of conflict between Boers and British culminating in the Boer Wars left many unresolved tensions that persisted into the Union of South Africa, created in 1910, and the Republic of South Africa, which withdrew from the British Commonwealth in 1961. On the indigenous side, the various groups that inhabit modern South Africa were shaped by conflicts rooted in their pre-nineteenth-century past, as well as the legacies of British imperialism and apartheid. Although political relations within the white minority have been relatively democratic, the National Party has been in power continuously since 1948, so that even within the ranks of the white

of that work by J. M. Coetzee, "A Betrayed People," *New York Review of Books* (January 14, 1993), 8–10. See also Crawford Young, "The African Colonial State and Its Political Legacy," in Donald Rothchild and Naomi Chazan, eds., *The Precarious Balance: State and Society in Africa* (Boulder, Colo.: Westview Press, 1988).

[6] See Leroy Vail, ed., *The Creation of Tribalism in South Africa* (Berkeley and Los Angeles: University of California Press, 1989).

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minority South Africa has not met Huntington's test for the existence of democracy. If we consider the country as a whole, South Africa has never been democratic in the Schumpeterian sense. By 1993 there had never been a competitive election. For much of South Africa's history parties advocating universal franchise have been banned and the basic civil freedoms listed by Huntington as necessary for democracy have been absent.

Judging by the books under review here, the undemocratic history and contemporary reality in South Africa need not stand as insuperable obstacles to the creation and consolidation of democracy there. Przeworski, Di Palma, Huntington, and Horowitz all presuppose or argue that claims about the importance to democracy of something called a "democratic political culture" or "democratic civil society" are overrated. The first three regard other factors as more important, and Horowitz argues that there is a type of constitutional engineering that can render the realities of South Africa's cultural divisions compatible with competitive elections based on majority rule in a unitary state.

Przeworski is the most resolutely uninterested in arguments about the importance of norms and culture for democracy. Writing from a realist perspective influenced by rational choice, he argues that the key to the survival of any democratic system lies in the incentives it generates for powerful groups that lose elections at any given time. The qualifier "influenced" flags the fact that although he sees interest maximization as basic to political action, he treats organized groups as the basic units of politics rather than focusing on the interests of individuals (pp. 11–12).

There is much to admire in this penetrating book by one of the most astute political theorists of our generation. Its central focus is on Eastern Europe and Latin America, and Przeworski's particular concern is with the ways in which political and economic reforms interact. The moral of his story is not generally encouraging: democracy is a highly fragile institutional order, unlikely to be brought into existence in a sustainable way via negotiated pacts and not easily compatible with disruptive and painful economic reforms. Democracy is fragile first and foremost because it must be spontaneously self-enforcing. Since every possible outcome of a democratic process hurts some groups and helps others, the trick is to design or otherwise come by institutions that offer the relevant political forces "a prospect of eventually advancing their interests that is sufficient to incite them to comply with immediately unfavorable outcomes" (p. 19). Groups with the power to destroy the institutional order must believe that this possibility exists, though they need not believe in democracy.

Przeworski thinks the conditions that incline the relevant players to

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believe that they can pursue their interests through the democratic process are exceedingly rare and that these conditions are not the characteristic result of negotiated transitions. Negotiations leave institutional traces of the ancien régime—most importantly an autonomous military. Institutions adopted during negotiated transitions tend to be ad hoc "temporizing solutions," and as a result political losers inevitably try to politicize them. Although opponents of authoritarian regimes may appeal to democratic rhetoric, they are more likely to abandon the democratic rhetoric than alter their desires if they fail to get what they want from democratic regimes (pp. 94–95).

Particularly when radical economic reform is necessary for economic survival, the costs borne by disadvantaged groups can be expected to erode any commitment they have to democracy. Then, rather than accept defeat and wait for the next election, they will either try to destroy the system or threaten such destablizing chaos that the military feels compelled to intervene. Aware of this, fledgling democratic governments face two alternatives: they must seek a neocorporatist solution (my term, not Przeworski's, in this context), designed to garner support from unions, opposition parties, and "other encompassing and centralized organizations," or they must render those organizations ineffective. In Przeworski's view, the neocorporatist strategy is incompatible with major economic reform because it is bound to breed resistance to the reform from groups harmed by it. As a result, Przeworski expects those democratic governments that survive to ignore or undermine opposition and ram through economic reform from above. The price of survival is therefore likely to be the abandonment of democracy (pp. 180–87). In short, it is economic needs, more than inhospitable cultures, that undermine democracy.

If this argument is sound, there would seem to be little solace in the knowledge that the absence of a democratic political culture in South Africa is not an obstacle to democracy there. To be reassured that one's house will not be destroyed by an earthquake, but that it will be demolished by a tornado instead, is scant cause for celebration. Nonetheless, aspects of Przeworski's argument are encouraging from the standpoint of South Africa. By his account, the most important determinant of whether or not the key actors will regard their interests as threatened are economic: will the fledgling democratic regime deliver a sufficient level of economic growth to reassure strategically powerful groups that they are not unduly threatened by its policies? The sixty-four-thousand-dollar question is what counts as an undue level of threat. Przeworski identifies two kinds of economic loss as particularly significant: substantial reduc-

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tions in economic well-being and marginal reductions that move people into poverty.

Although it might at first seem counterintuitive, drawing a distinction between these kinds of reduction in well-being allows Przeworski to make the case that the prospects for survival of fledgling democracies are greater in highly inegalitarian countries, as in Latin America, than in egalitarian regimes like the ex-communist countries. In the former case there is wealth to redistribute downward. This will no doubt breed resistance from the wealthy, but they are comparatively small in number, and in any case they may be persuaded that a degree of redistribution is necessary and perhaps even beneficial if it promotes industrial stability and economic growth. In the ex-communist systems, by contrast, there was a more egalitarian *ex ante* distribution, but most people were already living just above the poverty line. Under those circumstances reforms that produce even a short-term decline in economic performance can be expected to impoverish large numbers of people, who will then oppose the reforms. Thus, for example, despite the fact that a greater percentage of the population lived in poverty in Brazil than in the Soviet Union under the old systems, "the proportion of the population that finds itself living in absolute poverty as a result of reforms is still higher in the originally more egalitarian country" (p. 177).[7]

If this reasoning is sound, it bodes well for South Africa, where the structure of inequality is considerably closer to Brazil's than to that of the former USSR.[8] Moreover, during the process of democratization, South Africa will not have to put itself through the same kinds of structural economic changes that the ex-communist countries do. It is true that South African businessmen complain perpetually about government corruption, the low productivity of their work force, inflation, the lack of foreign investment, and an antiquarian tax structure that inhibits incentives for job creation and economic growth. But these are questions of degree. There is a difference between corruption where bureaucrats skim a percentage off the top of public projects, and corruption where they simply consume public revenues and scuttle the projects. There is a difference between a relatively unproductive work force in a functioning

[7] Anecdotal evidence supports this contention. On a visit to the former USSR in June 1992 this author found widespread informal estimates that over 80% of the population was living in poverty in the major cities, with the figure for Moscow over 90%. These estimates seemed credible from walking the streets, but systematic data on this question were impossible to come by.

[8] Indeed, it is more extreme. See Francis Wilson and Ramphele Mamphela, *Uprooting Poverty: The South African Challenge* (New York: Norton, 1989), 18ff. The authors provide evidence that by the late 1970s South Africa's gini coefficient was the highest of any country in the world for which data were available.

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capitalist economy and a work force consisting of people who have no idea that there is a relationship between the work one does and what one gets paid, or even in many cases what work is. There is a difference between the admittedly high levels of inflation in South Africa and the hyperinflation and worthless currency in Russia, which by 1993 was reaching the proportions seen in Weimar Germany. There is a difference between foreign capital that stays away because of the remnants of sanctions and nervousness about political instability in the short term, and foreign capital that stays away because of the lack of a system of banking and other financial infrastructure, let alone a predictable system of property rights, contract law, and labor relations. And there is a difference between a tax code in which the system of incentives and subsidies stands in need of growth-oriented reform, and one where there is no institutional capacity to collect revenue from the only part of the economy that is producing wealth—the illegal economy run by the mafia.

For all its economic difficulties, South Africa has a developed industrial economy and an operating market system—more so by any credible measure than the ex-communist countries or, indeed, than any other African country. Democracy will not have to be accompanied by structural economic transformation to create a viable market order. A Przeworskian analysis would hold that this increases the prospects for the survival of democracy in South Africa; the economic reforms that follow democratization are less likely to breed foundational resistance to the democratic regime, even though they involve redistribution that will be resisted by some strategically powerful actors. This comparative conjecture seems plausible. In the West market economies were created long before democratic political institutions, and in the Third World they have usually been instituted by authoritarian regimes that have democratized later, if at all. In no instance prior to the postcommunist experiments currently being attempted have democratic political institutions and a market economy been created simultaneously.

There are two respects—both with implications for South Africa—in which Przeworski's analysis is unpersuasively mechanical. First, Przeworski regards the key groups in the strategic politics of a democracy as internally monolithic; indeed he claims to follow Schmitter, Stepan, and Offe in assuming that they are generally organized in "a coercive and monopolistic fashion" (p. 12). In reality, political parties, trades unions, business organizations, churches, and the military contain various fissures that may be more or less latent.[9] As the political terrain begins to

[9] For a more elaborate critique of Przeworski and others for paying insufficient attention to such internal divisions, see Peter Swenson, "Bringing Capital Back In, or Social Democ-

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shift during a transition, these fissures come under pressures of various kinds, and different players try to exploit them. The effects, while often impossible to predict, can be massively consequential for democracy's future. When F. W. de Klerk dismissed twenty-three high-ranking army officers in December 1992, he presumably sensed the existence of such a fissure in the military and saw an opportunity to exploit it. If he was right, he may have rid himself of those most likely to feed destabilizing violence or plan a coup, and he may have succeeded in communicating the message that Tom Lodge says he was trying to convey to the rest: "Go quietly, and get your pensions."[10] If de Klerk misjudged the divisions within the officer corps, however, his actions may have aborted the reform by precipitating a backlash from the military. Similar arguments can be made about the possible significance of latent fissures within the ranks of other strategically powerful groups. Who knows how the African National Congress (ANC) will divide once it becomes part of a government that has to acquiesce in unpopular economic measures and restore civil order in Natal and the eastern Transvaal? Who knows what the consequences of these divisions will be? In 1993 the ANC is obviously a principal player, destined to shape the transition and the new order, yet it has more in common with the Democratic Russia of 1991–92 than with an internally monopolistic organized political party of the Western sort. It is an umbrella alliance of ethnically and ideologically diverse forces, held together almost exclusively by fragile contingencies of its history and the apartheid system opposed by all its members. Once that is gone, and the ANC is confronted with the dilemmas and demands of governing, it will inevitably divide. The form the fragmentation takes will have a decisive impact on the political order that emerges in South Africa. Any analysis that, like Przeworski's, takes no account of the significance of internal divisions within strategically powerful groups is bound to be misleadingly simplistic.

Second, Przeworski's account of the conditions required for democracy's survival is implausibly restrictive: he claims that every losing group with the capacity to destroy the fledgling regime must reason that the odds of advancing its interests are greater if it accepts the loss and waits for the next election than if it topples the regime now. That plausibly describes one set of sufficient conditions for democracy's survival, but these may not be necessary conditions; there may be other paths to dem-

racy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden," *World Politics* 43 (July 1991); and idem, "Labor and the Limits of the Welfare State," *Comparative Politics* (July 1991).

[10] Quoted in *New York Times*, December 21, 1992, p. A7.

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ocratic survival, other sets of sufficient conditions. Strategically powerful players may develop normative commitments to democracy, or they may become persuaded that the ancien régime was unjust or illegitimate in ways that will cause them to accept frustration of their interests to a degree. In 1986 the senate of the Dutch Reformed Church in South Africa publicly declared apartheid to be incompatible with Christianity, and in 1992 church leaders at a conference in Rustenberg publicly apologized for their church's previous support for apartheid (which apology Bishop Tutu accepted).[11] It is difficult to know what the full effect of these proclamations on Afrikaner political behavior will be. Anecdotal evidence drawn from personal interviews suggests that they shook some Afrikaners to the core. It brought some to accept that the system is unjust and that they ought to pay a price for the structural advantages they have enjoyed as a consequence of apartheid. (It is evidently possible for significant numbers within dominant groups to develop such beliefs; how else could affirmative action have become widespread policy in the United States?) Other white South Africans may have developed a normative commitment to democracy for different reasons: based on a pragmatic judgment that separate development is unfeasible or out of a belief that democracy's collapse into communism no longer poses a real threat.[12]

It is, of course, possible to redescribe all these cases to make them consistent with Przeworski's argument, by collapsing the normative commitment to accepting a loss or affirming democracy into the definition of the relevant group's interests. But such a move would make the theory truistic and uninteresting. If every failure to oppose democratization by a group with the capacity to oppose it is seen as evidence that democracy is not believed by the group to threaten its interests, then the category of "maximizing interests" would have been expanded so as to subsume every possible motivation. A theory that explains everything explains nothing, however.[13] Rather than adulterate Przeworski's argument thus, it is better to interpret it as describing one possible dynamic for democracy's survival and recognize that there might be others. Przeworski does try to distance himself from the claim that the dynamic he describes is literally inescapable, yet he insists that examples like Spain,

[11] See Donald Akenson, *God's Peoples* (Montreal: McGill-Queen's University Press, 1991), 295–310; and L. Alberts and Frank Chikane, eds., *The Road to Rustenberg* (Cape Town: Struik Christian Books, 1992).

[12] In this connection there is some evidence, contra Przeworski, from the former communist world that democracy and liberalization can be most strongly supported by the groups that suffer most during transitions. See the poll from Moscow, St. Petersburg, and Samara reported in *Nezavisimaya Gazeta* (Moscow), March 12, 1992.

[13] Furthermore, such a theory could not be tested empirically, since nothing would count as a falsifying instance.

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which appear to contradict it, are exceptional rather than typical. He never accounts for the Spanish case, however, which—in a disappointing move for a theorist of his caliber—he dismisses as "a miracle" (p. 8). At a minimum the existence of this counterexample should have alerted him to the possibility that there may be more than one feasible dynamic of democratic consolidation.

It remains an open question in South Africa whether recognition of apartheid's illegitimacy or normative commitments to democracy will cause strategically powerful players knowingly to accept the losses they expect to result from democracy. Enter Di Palma and Huntington, who both discern an important place for belief and innovative agency in the creation and consolidation of democratic regimes. Both write in the style of the mirror-for-princes literature of the Italian Renaissance; theirs are how-to books designed to help agents of democratic change.

Reacting to Huntington's 1984 speculation that the prospects for the emergence of many more democratic regimes in the world are slim,[14] Di Palma suggests that the lessons of the Italian and Spanish transitions may be more generally applicable. Unlike Przeworski, Di Palma thinks extrication—a negotiated transition—can be a promising path for the creation of workable democracy. In a functioning democracy outcomes are inherently uncertain, but the rules of the game are not. The trick, as Di Palma sees it, is to get the key players to embrace the rules and accept the uncertainty of outcomes—that is, to accept the realistic possibility of losing at some times as a condition for winning at other times. Unlike the democratic transitions of the nineteenth century, most of those attempted since World War I have come from dictatorial regimes, not liberal ones. Although Di Palma resists every suggestion that democratization should be sacrificed by catering to the entrenched interests of the ancien régime, he thinks the old elite should be given an opportunity to compete in the new political order; otherwise it will not acquiesce in the rules of the new game. Rules must be agreed on that institutionalize "the openness and uncertainty of the political market" for all players in order "to avoid prejudging or loading the future wins or losses of anyone who abides by the market's intentionally easy rules of admission" (p. 55). Rules that credibly achieve those goals can be attractive to all players; they decrease the costs of toleration by making all players think that their interests can prevail in the democratic order. That is why Di Palma be-

[14] Samuel Huntington, "Will More Countries Become Democratic?" *Political Science Quarterly* 99 (Summer 1984).

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lieves it is essential to divorce democracy decisively from any redistributive economic agenda.[15]

There is no denying that minimalism of this kind has its strategic advantages. It is doubtful, for example, that de Klerk would have been able to move toward democratization without the worldwide collapse of communism. This had the effect of driving a wedge between democratic opposition to the apartheid state and commitment to the socialist or communist redistributive agenda with which that opposition had been inescapably associated, at least in the minds of its opponents. Democracy may lead to redistribution, but it need not. If they could be brought back to life, nineteenth-century opponents of expanding the franchise in Europe and North America would doubtless be stunned to learn how little has been its impact on the distribution of income and wealth over more than a century in most capitalist countries.

In pursuit of the institutionalized uncertainty that can be attractive to all players, Di Palma endorses proportional representation because of its propensity to generate multiparty systems, parliamentary systems with weak executives, and institutional checks and balances designed to ensure that no majority or institution can dominate outcomes in predictable ways. The single paragraph of discussion of these matters is disappointingly brief, astonishingly so given the subject and thesis of the book.

To Craft Democracies is generally long on speculation and short on both evidence and sustained argument. To take one example, Di Palma asserts that the only way to "develop democratic skills is to exercise democracy" (p. 88), insisting that prolonging transitions is more likely to scuttle them than to facilitate them. This seems intuitively sound. Anyone who has spent time in the Second and Third worlds will know that a standard refrain of antidemocrats is that while democracy might work in the West, "we" are not ready for it because the people are backward and tribal, because Stalinism has destroyed civil society, because the economic preconditions do not yet exist, because there is no rule-of-law state, because, because, because. So one would like to believe that Di Palma is right about this, that learning to operate a democratic order is like learning to swim; you cannot do it by standing next to the swimming

[15] Di Palma's discussion of minimalism verges on the disingenuous insofar as he insists that "in the interests of democratization the corporate demands of business and the state may have to take precedence over those of labor, even when labor, after a long period of autocratic repression, may actually be escalating its demands." Labor, on his view, should therefore be compelled to trade off economic benefits for political gains (p. 97). Assertions of this kind, unsupported by any systematic evidence in the book, belie the claim that Di Palma's minimalist view of democracy does not load the distributive dice.

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pool, talking about swimming, and insisting that you are busy getting ready. You must be prepared eventually to get into the water (my simile, not Di Palma's). In fact, however, he adduces no evidence in support of the proposition that rapid transitions are more likely to be consummated than slower ones. After all, perhaps the swimming pool is too hot or too cold to survive in at a single jump. Perhaps it is empty. In England, much of Western Europe, and North America, attainment of universal franchise was a protracted affair that took over a century, whereas in Russia in 1917 the rapid transition was also rapidly aborted. Some would regard this as prima facie evidence against Di Palma's contention (though doubtless it could be otherwise explained as well). There are also theoretical reasons for suspecting that rapid transitions from authoritarian systems may be inimical to the development of the cooperation between government and loyal opposition that workable democracy requires. Juan Linz argues, for example, that unlike democratic systems that evolved gradually out of semiconstitutional monarchies, in transitions from authoritarianism there is no opportunity for counterelites, the seeds of a loyal opposition, to emerge during the predemocratic order.[16] In short, to develop any confidence in the claim that speed is generally better, there must be some systematic grappling with the relevant evidence; Di Palma does not attempt this.

Some of Di Palma's assertions seem flatly wrong. He insists, for instance, that democracy never comes about as a result of opposition. Except for situations where it is externally installed following a military defeat (as in Germany and Japan after World War II), indigenous elites must be induced to embrace democracy if it is to survive. This, it seems, seriously understates the role that opposition groups can play in forcing liberalization of authoritarian regimes and placing democracy inescapably on the public agenda. Think of the effects of Solidarity in forcing liberalization of the Polish regime in the early 1980s, of Civic Forum in the Czech transition, and the evident effects of the frightening (to elites) mobs in Romania in 1989 and in Russia following the attempted coup in August 1991. Di Palma's exclusive attention to the beliefs and behavior of elites ignores constraints and opportunities presented by politics from below with which elites are bound to contend. This matters less, perhaps, when the masses are comparatively docile, but in a highly politicized country like South Africa, relations between elites and masses are likely to be decisive in determining whether democracy can survive.

[16] Juan Linz, "Crisis, Breakdown, and Reequilibration," in Juan Linz and Alfred Stepan, eds., *The Breakdown of Democratic Regimes* (Baltimore: Johns Hopkins University Press, 1978), pt. 1, 34ff.

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Huntington's *The Third Wave* is, by contrast, stunningly well informed. Essential reading for anyone who is interested in the future of democracy, it exemplifies Schumpeterian theory at its best. The research for this book was completed in 1990, and it is a mark of how astute an observer of politics Huntington is that by early 1993 many of his observations about South Africa seem to be on the mark and none turns out to be obviously wrong. How many of us could make the same claim for our two-year-old prognostications about these rapidly unfolding events?

Unlike Przeworski, Huntington recognizes that democratic transitions, consolidations, and collapses can all result from a variety of dynamics, and he explores several of them analytically and historically. He also differs from Przeworski (and agrees with Di Palma) in arguing that negotiated transitions can be successful. Building on the work of Juan Linz, Donald Share, Scott Mainwaring, and others, he distinguishes four possibilities: *transformations* (as in Spain, India, Hungary, and Brazil), when the elites in power take the lead in bringing about democracy; *replacements* (as in East Germany, Portugal, Romania, and Argentina), when opposition groups take the lead in bringing about democracy; *transplacements* (as in Poland, Czechoslovakia, Bolivia, and Nicaragua), when democratization occurs from joint action by government and opposition groups; and *interventions* (as in Japan, West Germany, Grenada, and Panama), when democratic institutions are imposed by an outside power (pp. 113–14). Of the thirty-five possible democratizations that appeared to be under way during the third wave, sixteen were transformations, six were replacements, eleven were transplacements, and two resulted from interventions, suggesting that in the third wave at least transplacements or negotiated transitions were common. South Africa evidently falls into the transplacement category, which results when dominant groups in both government and opposition recognize that they are "incapable of unilaterally determining the nature of the future" (p. 152).

Huntington sees himself as developing a post hoc explanation of the third wave democratizations rather than developing a covering-law model or predictive theory. Indeed, although he never says this, Huntington's recognition that fundamentally different dynamics may be at work in this wave as compared with the previous two, as well as in the different democratizations comprising the third wave, suggests that he may be skeptical that any such general theory of democratization could be developed. If Huntington does not develop a theory, it would be a mistake to say that he does not theorize; he offers what might be called a structural-historical account of recent attempted democratizations, out

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of which he tries to identify generalizations about the underlying causal forces. On the basis of these he compiles pithy lists of recommendations for would-be democratizers in different transitional circumstances. The recommendations are practical, to the point, even amusing.[17] I will focus here on the underlying argument.

For Huntington, the most fundamental necessary conditions for successful democratization are economic. Although third wave democratizers differed greatly in their levels of economic development, none were poor (defined as having per capita incomes of less than $250 per year), and the great majority (twenty-seven out of thirty-one) were moderately well-off (with per capita incomes of between $250 and $3,000). Sheer wealth appears not to be enough, however. Oil-rich Arab countries did not democratize, indicating that broad-based economic development involving significant industrialization may be required. Huntington embraces some standard claims of modernization theory: that broad-based economic development promotes tolerance and education, and that it makes more resources available for distribution; the expanding economic pie thus "facilitates accommodation and compromise." It also results in increased trade, which creates nongovernmental sources of wealth and influence and opens societies to the impact of democratic ideas prevalent in the industrialized world. Although the middle classes may initially be hostile to democracy, as modernization advances they become more sure of their capacities to survive in a democratic order on his telling, and less dependent on authoritarian regimes. In virtually every country (with the exception of Poland at the time Huntington was writing, though other communist countries might now be added), landlords, peasants, and workers played marginal roles; the most active and effective supporters of democracy came from the urban middle class (pp. 64–68). In this, his argument, like Przeworski's, is reminiscent of Barrington Moore's famous insistence that democracy does not emerge unless there is a middle class.[18]

Huntington is not an economic determinist, however; he recognizes

[17] As in his advice on how to deal with the military in a fledgling democratic order:

> Give them toys. That is, provide them with new and fancy tanks, planes, armored cars, artillery, and sophisticated electronic equipment (ships are less important; navies do not make coups). New equipment will make them happy and keep them busy trying to learn how to operate it. By playing your cards right and making a good impression in Washington, you will also be able to shift much of the cost to the American taxpayer. You then gain the added benefit that you can warn the military that they will only continue to get these toys if they behave themselves because nasty U.S. legislators take a dim view of military intervention in politics. (pp. 252–53)

[18] Barrington Moore, Jr., *The Social Origins of Dictatorship and Democracy* (Boston: Beacon Press, 1966), 413–32.

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that other factors, such as the level of communications, may exert autonomous pressures toward democratization (p. 63). One suspects that today he might make more of this point (which he based on research by Phillips Cutright from the early 1960s), given the decisive role of television in the snowballing effects of the East German demonstrations in 1989 and in the Russian transition in the fall of 1991. In a particularly useful discussion of religion, Huntington notes that the third wave belies one article of conventional wisdom: that Protestantism is uniquely well-disposed toward democracy. Most third wave democratizations occurred in Catholic countries, a change that Huntington attributes to the Catholic church's becoming more politically progressive worldwide and organizationally more like Protestantism—with its stress on individual conscience, internal democracy, and self-reliance—during the 1970s and 1980s. He also conjectures that the church may cease to be a force for democratization in the future, given the conservative theological directions in which John Paul II has taken it (pp. 75–78, 282).

An inescapable fact is that national democracy continues overwhelmingly to be associated with Western Christianity. In 1988 Catholicism and/or Protestantism were the dominant religions in thirty-nine of the forty-six democratic countries, and democracy was especially rare in countries that were predominantly Muslim, Buddhist, or Confucian. Huntington explores various arguments about why these religions might generate cultural barriers to democracy—arguments that range from the internal hierarchy of these religions, their refusals to accept the legitimacy of a secular public realm, and the predominance of responsibilities over rights and of groups over individuals in their ideologies. He thinks that although there may be something to these claims, there are limits to arguments about cultural limits to democracy. On the one hand, Christianity has exemplified many antidemocratic traits through much of its history and in many of its variations; on the other, bodies of thought like Islam and Confucianism are internally complex, and they contain strands that are compatible with democracy as well as those that are hostile to it.[19] It is also possible that religions other than Western Christianity may be compatible with democracy in domains of social life other than the secular nation-state. This Huntington does not consider. Like Przeworski and Di Palma, he concludes generally that arguments about the cultural prerequisites for democracy have been exaggerated. Cultures are dynamic; they adapt and evolve, he notes, and he reminds us that empir-

[19] For one useful empirical discussion in the Egyptian context, see Bruce Rutherford, "Can an Islamic Group Aid Democracy?" in John Chapman and Ian Shapiro, eds., *NOMOS XXXV: Democratic Community* (New York: New York University Press, 1993).

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ically poverty has been much more of a barrier than any cultural variable to the spread of democracy (pp. 72–85, 298–311).

Huntington does not think that democracy springs spontaneously out of economic development. The typical dynamic he identifies in the third wave is a more complex combination: the economic preconditions of relative wealth and broad-based industrialization must be present. But on his account, democratic transitions are not triggered unless there is a period of protracted economic crisis that chrysalises social discontent with the authoritarian regime and unless a significant part of the elite comes to believe in democratic values. Like the Italian civic humanists, Huntington believes that the legitimacy of regimes tends to decay over time, but this does not mean that as authoritarian regimes decay they are likely to be replaced by democratic ones. Indeed, statistically they are more likely to be replaced by new nondemocratic regimes (pp. 48, 35). In the contemporary world, democracy does have going for it the fact that aristocratic and now communist rationalizations of authoritarianism have been almost universally discredited while democracy commands widespread acceptance as a public ideology, but Huntington wisely cautions that various brands of authoritarian nationalism, religious fundamentalism, oligarchic authoritarianism, as well as populist and communal dictatorships might well emerge (pp. 293–94). The point is well-taken. Who at the end of the twentieth century could possibly doubt that once-unfashionable repressive ideologies like Nazism and Fascism can reassert themselves or that there is any limit to the forms that ideologies of oppression can take?

If authoritarian decay is to be followed by a democratic transition, then, key elites must develop commitments to democracy. In transplacements this is often started by liberalizing elites that have no intention of creating a full-fledged democracy, only of buying off discontent. But liberalized authoritarianisms turn out to be inherently unstable, dividing regimes between standpatters, who want to re-create the status quo ante, and reformers, who want to continue liberalization. For this reason Huntington thinks it is almost invariably a mistake for oppositions to boycott partial reforms or less than fully democratic elections (as in the 1983 and 1988 municipal elections and the 1984 and 1989 elections to the tricameral parliament in South Africa). Despite their defects, such elections will not have the shoring-up effects that authoritarian governments anticipate; on the contrary, their unstable results may precipitate further reform. Indeed, they may be necessary for precipitating it (pp. 186–88).

Transplacements occur only when reformers are stronger than standpatters in the government and moderates are stronger than extremists in

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the opposition. In such circumstances standpatters and extremists can be marginalized from the emerging consensus on the new order (p. 124). When Huntington wrote, it was unclear whether these conditions would transpire in South Africa. The country had already moved in textbook fashion through the stages of liberalized authoritarianism he describes (pp. 131–42); however, the essential coalition, between de Klerk's government and moderates in the opposition, had not yet emerged, and standpatters on the right and extremists on the left had not been successfully marginalized. The referendum on the constitutional negotiations among white voters in April 1992 (which de Klerk won by a two-thirds margin with majority support in every region of the country) went a considerable way to marginalizing the extreme right, although by early 1993 both its intentions and strength in the military and security forces remained shrouded in mystery and hotly debated. Reliable knowledge about how powerful radicals on the left were and what they were likely to do was equally hard to come by, as indicated by the fact that fingers were pointing in all directions with regard to the escalating violence and the weapons that were pouring into the eastern part of the country from Mozambique.

By the end of 1992 the government and the ANC leadership were being attacked from the left and the right in ways that suggested that the alliance necessary for transplacement to occur was close to being cemented, despite the fact—indeed, perhaps partly because of it—that the all-party CODESA constitutional negotiations were officially still on hold.[20] (These had broken down earlier in the year when the ANC withdrew following a massacre for which it held the government responsible.) New bilateral negotiations in September 1992 led to a Record of Understanding between the government and the ANC, a clear indication that by then they conceived of themselves as the two principal players. The government began to moderate its criticism of the ANC, whose leaders responded in kind. In February 1993 they subdued the radical wing of the ANC, and the leadership approved a plan to let minorities share in governing the country for five years after the end of white monopoly rule, a substantial concession. Both the government and the ANC leadership appeared determined to fix the main terms of their agreement before multilateral talks would be allowed to resume.[21]

[20] The acronym stands for Conference on a Democratic South Africa, a set of roundtable negotiations that were set up in 1991 to plan for the transition and the new constitution. Most major players participated in CODESA until its suspension in mid-1992; some separatist conservative Afrikaners and the revolutionary Pan Africanist Congress did not participate.

[21] *New York Times*, February 19, 1993, pp. A1, A7.

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The agreement of February 1993 indicated that the government had accepted the ANC as its principal partner. This came as no surprise. By late 1992 the government was clearly marginalizing parts of the opposition that were in competition with the ANC, most notably Inkatha. By December its leader, Mangosuthu Buthelezi, was reduced to talking somewhat desperately about unilaterally calling a referendum on self-rule for Natal, and he furiously denounced the February 1993 agreement. The decision to marginalize Buthelezi marked a distinct change in the government's strategy: as late as May 1992 it seemed to be making every effort to pump up non-ANC opposition groups through such actions as meeting with the revolutionary Pan Africanist Congress (PAC, which was then boycotting CODESA) outside the country and publicly disputing ANC claims about its own grass-roots support (insisting, for example, that Inkatha had more substantial support among the Zulu in Natal). The old strategy of seeking to divide the opposition as much as possible seemed now to have been shelved (or at least to have become plan B) in favor of finding a negotiating partner with whom a deal could be struck. A common assertion emanating from all parts of the political landscape by early 1993 was that the government and the ANC were now fully dependent on one another. A Huntingtonian transplacement thus seemed to be well under way by this time, with the government committed to multiracial elections by April 1994 and the possibility of an interim government before then. Reformers, in control of the government for the present at least, were beginning to welcome the idea of externalizing responsibility for controlling the violence onto an ANC leadership that was moving inexorably toward power. There was even discussion in the press of integrating *Umkhonto we Sizwe* (the military wing of the ANC) into the South African Defense Force, a proposal that had been dismissed by the government as unthinkably radical only nine months earlier at CODESA. This was potentially an encouraging development. Some former colonies did exactly that at independence. Those that did not often confronted problems afterward.[22]

If a transplacement was under way by early 1993, its outcome was by no means assured. Negotiations of this kind are inherently unpredictable and potentially explosive, and few if any observers believed that either radicals or standpatters had exhausted their capacity to foment destabilizing violence.[23] Many factors that Huntington identifies as favorable to

[22] The impression that this shift in strategy had occurred is based on public statements and actions by the players, as well as interviews with people close to the principal negotiating partners conducted by this author during visits to South Africa in May and December 1992.

[23] For evidence that substantial violence was emanating from both political extremes, see

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successful transplacements are present in South Africa: the economy, the democratically committed elites, and the history of political competition within the ruling elite under the old regime all suggest that a degree of confidence in the possibility of a successful transition is warranted (pp. 111–12). There are other positive factors that he does not mention, the most important perhaps being the presence of a rule-of-law state. Even though this was often honored in the breach rather than the observance during the heyday of apartheid, it left institutional traces that have already been helpful in holding the government to account for violence through such devices as the Goldstone Commission, and in facilitating and structuring the CODESA negotiations. It may also prove helpful during the period of interim government and after. There are also other not-obviously-to-be-dismissed factors like a repository of goodwill toward the prospect of a multiracial democracy in many groups. It may be impossible to measure reliably and no doubt can easily evaporate, yet it impresses the visitor in anecdotal ways, and people talk about it.

Huntington does point out, however, that racial oligarchies have historically proved especially resistant to democratization and that high levels of violence generally undermine transitions. Even before the influx of weapons and the escalation of violence in 1992, Huntington noted that South Africa was one of the most violent countries in the world, ranking only behind Nicaragua (we should now add Yugoslavia, Georgia, Armenia, Azerbaijan, Tajikistan, and Moldova) in the numbers killed in third wave countries in the struggle to democratize. Violence increased from hundreds or fewer per annum in the 1970s to thousands in the 1980s (pp. 193–94). In 1992 the number was several thousand, although reliable figures are difficult to come by. Violence can scuttle democratic consolidation even if successful transition occurs; it can abort the dynamic of governments giving up power when they become unpopular, which Huntington regards as both the essential defining characteristic and unique advantage of democracy: when governments lose legitimacy they are replaced by other governments rather than by a collapsed regime (pp. 46–48).

In addition to these discouraging factors, there are the imponderables of religion and culture. They are imponderable both because their influence is so little understood and because so little is known about them in the South African context. In the only empirically questionable claim I detected in the book, Huntington identifies South Africa as a predominantly Protestant country (p. 76), which by his reckoning would place it

Anthea Jeffery, "Spotlight on Disinformation about Violence in South Africa," *Spotlight*, no. 8 (October 1992), published by the South African Institute of Race Relations.

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in the category of those most receptive to democracy—to the extent that these factors matter. That is too simple. The majority of the population adheres to a variety of indigenous religions and cultural ideologies. Although these have been influenced by Christianity, it would be foolish to think that older affiliations and beliefs have been obliterated. True, Islam and Confucianism, which Huntington identifies as particularly hostile to democracy (at least in their dominant contemporary manifestations), are not strong in South Africa, with its small and mainly Hindu Indian population of about one million and its tiny Chinese community. But little is known about the compatibility of black South African religions and cultural practices with democracy.[24]

III. The Limits of Schumpeterianism

The Preoccupation with Leaders and Elites

A valid criticism of the three books discussed thus far is that their preoccupation with leaders and elites leads them to ignore constitutional factors and the dynamics of electoral politics almost entirely. This lacuna is partly filled by Horowitz's *A Democratic South Africa?*, which deservedly won the American Political Science Association's Bunche prize in 1992. Although his argument falls within the parameters of Schumpeterian analysis in some respects, it usefully points us beyond them.

Horowitz approaches the question of South Africa's future from the standpoint of the literature on constitutional engineering in divided societies. The central question in this literature is whether questions concerning electoral systems and constitutional design should be approached differently in countries where there are enduring ethnic cleavages that dominate other divisions than in the multiply-cleavaged societies of the developed West.

This is a contentious literature, partly because of its assumptions about the developed West. These are traceable to the so-called group theorists of American politics in the early twentieth century, of whom Arthur Bentley is perhaps the best known.[25] "For every group an interest, for every interest a group" was their theoretical slogan. They were followed, in the 1950s and 1960s, by the pluralist theorists, who sought to confirm the old claim of the group theorists on the basis of a series of empirical

[24] In this connection we await the results of important research on Ubuntu by Ziba Jiyane, "Securing Democracy and the Rule of Law in South Africa" (Ph.D. diss., Yale University, in progress).

[25] Bentley, *The Process of Government* (Chicago: University of Chicago Press, 1908); David B. Truman, *The Governmental Process* (New York: Knopf, 1951).

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studies of American cities.[26] But it was Louis Hartz who, in the mid-1950s, first explored the implications of pluralism systematically. Initially, Hartz wanted to explain why there has never been a powerful socialist tradition in American politics. His answer turned on the claim that in contrast to European societies, which had exhibited a *single cleavage* between the propertied classes and the rest, America was a *multiply cleavaged* society, with no basic or dominant division of the socioeconomic landscape.[27]

Hartz's distinction between single- and multiply cleavaged societies has become one of the conceptual building blocks of pluralist democratic theory. The more a society approaches the multiply cleavaged model, the less likely destabilizing revolution is thought to become. Put otherwise: if I am opposed to you on one issue but also know that I may be allied with you against another coalition on some future issue, I have an incentive to moderate my opposition to you and search for common ground. No minority ever reaches that proverbial state of affairs where its members have nothing to lose but their chains. Generalizing from this, pluralist theorists argued that building and sustaining a social landscape made up of crosscutting cleavages reinforces pluralist-democratic stability.[28] The influence of this argument has been considerable; in the present context, for instance, it implicitly informs Huntington's claim that economic development must be widespread. To insist on this is to insist in effect that economic class relations will crosscut other bases of affiliation.

The Hartzian assumptions about both European and American politics have been subjected to trenchant criticism, on the grounds that the former has never been as bipolar, nor the latter as multipolar, as the theory assumes.[29] Furthermore, cleavages are not fixed features of social orders but evolve historically—a fact that lies at the core of the theory's contentiousness when applied to debates about divided societies in the Third World. On the one side, advocates of consociational democracy contend that in societies that are deeply divided along ethnic lines, de-

[26] Robert Dahl's study of New Haven, Connecticut, was the classic of this genre; see Dahl, *Who Governs?* (New Haven: Yale University Press, 1961).

[27] Hartz, *The Liberal Tradition in America* (New York: Harcourt, Brace, 1955). See also Robert Dahl, *A Preface to Democratic Theory* (Chicago: University of Chicago Press, 1956).

[28] For a good account of the history of the pluralist argument and an elaboration of its logic, see Nicholas R. Miller, "Pluralism and Social Choice," *American Political Science Review* 77, no. 3 (1983).

[29] See Eric Foner, "Why Is There No Socialism in America," *History Workshop Journal* 17 (Spring 1984); Sean Wilentz, "Against Exceptionalism: Class Consciousness and the American Labor Movement," *International Labor and Working Class History* 26 (Fall 1984); and G. William Domhoff, *Who Really Rules?* (New Brunswick, N.J.: Transaction Books, 1978).

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mocracy can be realized only if the effects of majority rule are mitigated by institutional devices that require the concurrence of all groups in all major decisions and the delegation of decisions involving only the interests of particular groups to the groups in question.[30] On the other side, critics of consociationalism note that ethnic affiliations are not primordial givens; rather, they are manufactured out of social and political conflicts and exploited by elites for their own purposes. They are also affected by the nature of institutional political arrangements; in Horowitz's view, this is the decisive reason for rejecting the consociational institutional arrangement in South Africa.

Consociationalism has been described by its best-known proponent as a system of government based on "a cartel of elites."[31] This reflects the fact that the groups whose rights it is designed to protect are defined by leaders, who are then forced by such devices as concurrent majorities or minority veto powers to rule by agreement with one another. This contrasts with the model of "circulating elites" of classic pluralist theory, according to which different coalitions of elites control different parts of the political process at different times.[32]

The top-down character of consociationalism opens it to the charges that groups whose rights are to be protected are not themselves formed or even identified in democratic ways and that in some circumstances consociational solutions reinforce and perhaps even create politicized ethnic divisions. Consociationalism solidifies the many-faceted forms that cultural affiliation can take in reified ethnic divisions; in that sense it can cause the very malady it is allegedly designed to treat.

If the structure of South Africa's ethnic divisions were such that only a consociational democratic solution could work there, then it would be the tragedy of South Africa that no democratic solution was possible. Proponents of consociational solutions in South Africa are careful to distance themselves from apartheid's legacy, and they offer subtler, more egalitarian institutional prescriptions than the racial classifications and allocations of the old regime. Yet as Horowitz notes, their proposals nonetheless constitute ethnically based systems of group rights, in that cultural autonomy can only be accorded to ethnic or racial groups—and not, for example, to political parties (pp. 142–43).

Leaving analytical questions aside for a moment, such solutions are

[30] See Arend Lijphart, *Democracy in Plural Societies* (New Haven: Yale University Press, 1977).

[31] Arend Lijphart, "Consociational Democracy," *World Politics* 21 (January 1969), 213–15, 222.

[32] See Dahl (fn. 26).

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not in the cards for South Africa. Although there is some support for the idea of protecting minority rights in the abstract, this turns soft when the discussion turns to particular groups or specific mechanisms. The apartheid history makes the idea of group rights—with or without a territorial basis—taboo among too many of the relevant players for it to be a serious prospect. Even if agreed to by the ANC as the transitional price of power, it would likely go the way of minority vetoes in Zimbabwe. Accepted during the transition for strategic reasons, these protections were dispensed with later. Horowitz notes that successful consociational arrangements are historically rare, and he points to a number of difficulties that would be peculiar to a consociational solution in South Africa. These derive from the size and locations of the relevant minority groups; they would not necessarily balance one another by being mutually indispensable as is the case in countries like the Netherlands (pp. 138–45). But Horowitz's real objection to consociationalism is more fundamental; it turns on a distinction between what he describes as internal incentives and external constraints. His point is to distinguish between rules that affect the behavior of elites vis-à-vis grass-roots political constituencies and the constraints on their strategic manipulations when dealing with one another. The central argument informing Horowitz's critique of consociationalism as well as his own proposals is that adjusting external constraints is unlikely to advance the cause of democracy in severely divided societies; instead the focus should be on the structure of internal incentives (pp. 154, 176).

Consociationalism relies on the goodwill of leaders—on statesmanship—to foster intergroup compromise and avoid destructive intergroup conflict. But as Horowitz notes, the perceived need for consociational solutions suggests that the relevant goodwill is likely to be lacking. More importantly, however, nothing in the structure of consociationalism supplies leaders with any incentive rooted in the dynamics of electoral politics to avoid exclusionary politics, or even to support the consociational system in the long run. That is why we should expect it to be ignored or swept aside in democratic political competition. "The choice," he explains, "is between zero-sum, high conflict contests along ethnic and racial lines—with a considerable potential for one or more actors to step in and end the democratic competition before it gets overheated or after it produces exclusionary results—and open-textured, fluid, low-conflict contests, mainly along racial and ethnic lines but with an admixture of intergroup cooperation" (p. 203).

Essential to achieving this latter, in Horowitz's view, is a system that affects the behavior of elites from one group toward the grass-roots

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members of other groups, thereby "harnessing self-interest to the cause of peace" (p. 155). This can be achieved in a variety of ways, all of which require politicians to compete for votes among ethnic groups other than their own. The most obvious is a combination of coalition politics and heterogeneous constituencies. Horowitz describes a successful example of this kind from Malaysia, in which Malay and Chinese politicians were forced to rely in part on votes delivered by politicians belonging to the other ethnic group. The votes would not have been forthcoming "unless leaders could portray the candidates as moderate on issues of concern to the group that was delivering its votes across ethnic lines." In this type of situation, which Horowitz identifies as having operated for considerable periods (and then failed) in countries as different as Lebanon, Sri Lanka, and Nigeria, compromises at the top of a coalition are reinforced by electoral incentives at the bottom (pp. 154–55).

Another possible device is geographical distribution requirements, such as the Nigerian formula for presidential elections employed in 1979 and 1983, in which the winning candidate had to get both the largest number of votes and at least 25 percent of the vote in two-thirds of the then nineteen states of the Nigerian Federation (p. 184). This type of system seems unlikely to work in South Africa, however, given the territorial racial dispersion. The two most promising candidates there are proportional representation utilizing the single transferable vote system, and an alternative vote rule that also lists more than one ordered preference, but declares elected only candidates who receive a majority, rather than a plurality, of votes (p. 166). Both systems require politicians to cater to voters' choices other than their first preferences, assuming heterogeneous constituencies, so that the internal incentives work in the appropriate moderating directions. Horowitz thinks this will be further accentuated by the alternative vote system, assuming that parties proliferate (pp. 187–96).

Although his discussion of the particulars is unfortunately dense and difficult to follow, Horowitz makes a persuasive case that such vote-pooling systems are more likely to achieve interethnic political moderation than systems, whether first-past-the-post or proportional, that merely require seat pooling by politicians in coalition governments. He also usefully points out that debates about presidential versus parliamentary systems have generally been conducted in innocence of his distinction between incentives and constraints, and that a presidential system (which he thinks might well be desirable in South Africa for some purposes) need not exhibit the defects Linz, Lijphart, and others have attrib-

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uted to it if it is based on a vote-pooling system of the kind he advocates (pp. 175–76, 206–9).

Horowitz wants to avoid specifying in advance what the groups appropriate to his system are. Yet he assumes that they will be ethnically based parties that will in fact pool votes across divisive ethnic lines. The only way to ensure this result, however, would be to write it into the electoral law. If this is not done, Horowitz's system seems to "lack a mechanism," as he says of consociationalism. But if it is done, Horowitz's system seems to be vulnerable to the criticism of consociationalism that it reifies ethnic differences. At a minimum there would have to be some constraints on the type and/or size of parties that could be represented. These constraints would inevitably be seen as proxies for race-based group rights. There is no way around this difficulty, because if there is substantial proliferation of parties, as in Poland or Russia (and which Horowitz anticipates), then Horowitz's device would not ensure that vote pooling across the relevant ethnic divides actually occurs. In the limiting case, various parties of one ethnic or racial group might redistribute votes among themselves until one or some coalition of them had a majority, such that other ethnic parties were excluded from power completely. This brings us back to the question of the extent to which South Africa is really ethnically divided "underneath it all," as it were, and what the quality of those divisions is. Horowitz summarizes the rather scant research conducted to date on black ethnicity (pp. 48–61), but he does not add to it. Given that the immense and often overlapping complexities of racial, tribal, ethnic, linguistic, religious, and other cultural bases of affiliation are so little understood, it seems to me that no one can know what the most salient groups in South African politics will be two elections hence. Horowitz is surely sensitive to this, but he does not explain how an electoral law that requires that the relevant groups be known in advance can in that case be instituted.

It is also unclear how Horowitz supposes the system he advocates might come into being. Like Przeworski, he is unpersuaded that any particular merit attaches to negotiated constitutional and electoral arrangements simply by virtue of their having been negotiated. It may be that the system the players agree on during the transition phase will not be workable in the long run (p. 154). Although it may well not be sufficient for long-term viability, however, agreement of the key players during the transition is surely necessary. Yet Horowitz does not offer a convincing account of how the government, the ANC, and other potential destabilizers *can* be brought to see that his system will service their interests as they perceive them.

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The Preoccupation with National Institutional Performance

Horowitz's discussion goes beyond the Schumpeterian model in one important respect: in place of an exclusive focus on the jockeying of political elites, he gestures toward civil society by attending to the relations between elites and grass-roots constituencies. Yet his interest in these relations is driven exclusively by an instrumental concern for the performance of national political institutions. Indeed, he even acknowledges that there may be standpoints from which the forms of ethnic accommodation may militate against democracy. He notes that "there is frequently an inverse relationship between intragroup democracy and intergroup democracy. Intergroup accommodation may be easier where ethnically based parties do not need constantly to be looking over their shoulders to see which of their competitors might make political gains as a result of compromises made across group lines" (p. 120). This raises large questions about the internal structure of political parties and of civil institutions generally. At the risk of making an already too long review essay yet a little longer, I will end with a few remarks about these subjects.

A central difficulty with Schumpeterian democratic theory is that the premium it places on stability is so high that it is often difficult, in the end, to see what is democratic about it. If it is compared to a war of all against all, in which life is inevitably nasty, brutish, and short, a prima facie case can be made for Schumpeterian minimalism, as we have seen. But is that necessarily the relevant counterfactual? Hobbes employed it to load the dice in favor of unbridled absolutism; anything else, he theorized, must inevitably result in chaos, civil war, and death. Just as Hobbes's delineation of the possibilities turned out to be misleadingly narrow and malevolent, the same might be the case with the Schumpeterian approach discussed here.

To begin with the comparatively minor point raised in the previous quotation from Horowitz, one can imagine his vote-pooling proposal being supplemented by laws about the internal structure and governance of political parties. These could require elected party leaders, open memberships, public accounting rules and regular audits, term limits, and other devices designed to diminish corruption and force some democratic accountability on parties, ethnic or otherwise. Such devices might seem humdrum in light of the large and dramatic subjects we have been discussing, but think of the role they play in forcing a substantial degree of openness and elite vulnerability in American politics. The damage, possibly decisive, done to George Bush's reelection prospects by Patrick

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Buchanan's grass-roots campaign in the 1991 Republican primaries is a case in point. As the example illustrates, the process is often not pretty but it forces relative openness, internal malleability, and diversity within parties if they want to remain major parties.

Promoting democracy within parties is intrinsically attractive on democratic grounds, and there may also be instrumental advantages to doing it as transitions approach. In this connection, the following hypothesis merits serious attention: the likelihood that an opposition movement will achieve sustainable democracy once it comes to power varies with the degree to which its own organization was internally democratic in opposition. There is plenty of impressionistic evidence in support of the negative, from the French to the Russian to the Algerian revolutions. Vanguardist parties and elites acting "on behalf of" mass movements seem quick to forget or pervert their mandates once they achieve power. Evidence of the positive case is by its nature harder to come by, but one notable feature that distinguished the perpetrators of the American Revolution from their French counterparts was their practice of internal democracy in so much of what they did.[33]

It would be a mistake to think of the practice of democracy in opposition as sufficient to ensure its survival later; the evidence belies any such claim. David Apter has shown, for example, that the Convention People's Party in Ghana was comparatively democratic in structure, modeled after the British Labor Party.[34] Yet this did not stop Nkrumah from becoming a dictator. Similar observations could be made about autocrats-to-be in Francophone West Africa (notably Senghor and Houphouet-Boigny), who served in the parliament of the Fourth Republic and hence were presumably well-versed in democratic practices.[35] Yet if democratic practice in opposition is not sufficient for democracy's subsequent survival, it seems reasonable to conjecture that it is necessary. How will political leaders learn to practice democratic behavior in the face of the temptations of power if they have not practiced it before being subjected to those temptations? It is a source of some surprise to an outsider that this issue seems to have been completely ignored in the literature on democratic transitions.

Given the space, I would argue that what goes for political parties goes for civil institutions more generally. It is true that one venerable tradition

[33] See Gordon Wood, *Creation of the American Republic, 1776–1787* (New York: Norton, 1969), 3–124. See also idem, *The Radicalism of the American Revolution* (New York: Knopf, 1992).

[34] David Apter, *Ghana in Transition* (New York: Atheneum, 1963), 203–6.

[35] I am grateful to an anonymous reviewer for this point.

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of social theory affirms the contrary view, usually by appeal to the notion that once values are not authoritatively allocated by the state, as they are not in a democracy, they must emanate from civil institutions that are shielded from democracy's requirements. Michael Walzer said this explicitly in a recent essay, claiming that although a democratic civil society "is one controlled by its members," this does not require that institutions of civil society themselves be internally democratic. Ever since this claim was first put forward by Tocqueville, its democratic credentials have been suspect, not least because the mechanisms by which an internally undemocratic civil society will produce democratic agents and public institutions have not been spelled out by its proponents.[36]

In the end it is not a plausible view, because democratic habits of thought and action have to be learned through practice in everyday life. There is no convincing reason to think this will occur in an authoritarian political culture. In debates about the relations between civil society and democratic politics, we should eschew questions about how "weak" or "strong" civil institutions might be and turn instead to the study of how democratic they are and how democratic they might be made to be.[37]

[36] Michael Walzer, "The Idea of Civil Society," *Dissent* (Spring 1991), 302–3. Tocqueville makes this claim most explicitly while discussing the relative merits of Catholicism over Protestantism in democratic systems. See Alexis de Tocqueville, *Democracy in America* (New York: Anchor, 1969), 449, 450–51.

[37] For elaboration of this view, see Ian Shapiro, "Three Ways to Be a Democrat," *Political Theory* 22 (February 1994).

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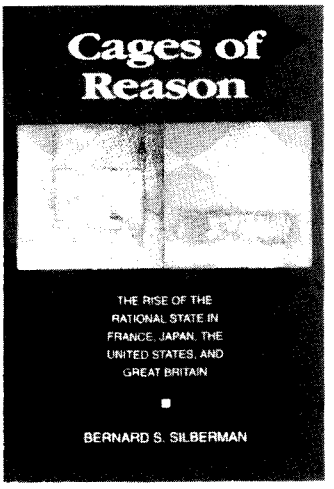

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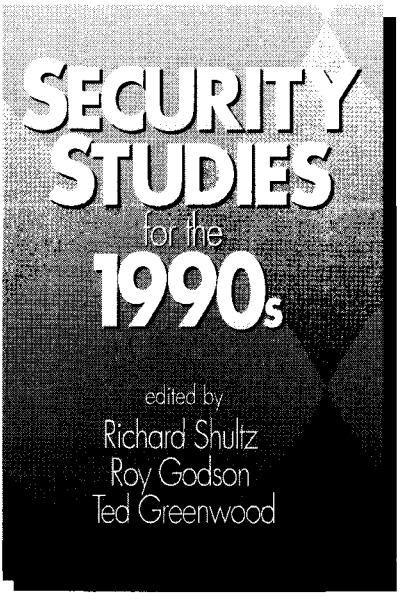

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